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# APPLE/AASP PROGRAM

## EVALUATION REPORT



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MAXIMIXE

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Lima, September 1997

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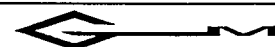
STRATEGIC OBJECTIVE

SO2 - Increased Incomes of the Poor

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## EXECUTIVE SUMMARY

1 As a result of the complete evaluation of Project MSP/AASP and its three implementing NGOs FINCA-Peru, CARE-Peru, and CRS-Peru, the **general conclusion** is that they have complied with the obligations derived from their contractual commitments

2 Since MSP/AASP signed agreements with FINCA-Peru, CARE-Peru and CRS-Peru, the international and national environments have changed dramatically

### 2 1 Before

- There was not yet a consensus at international level about the importance of the microfinance as an instrument for the struggle against poverty
- In Peru there was an ongoing high level of uncertainty with respect to the possibility of having surpassed the syndrome of hyperinflation
- Peru's financial system remained over regulated
- Terrorism was still constituting a threat to the State and society, and particularly, to the international technical assistance agencies

### 2 2 Now

- Microfinance is widely recognized as a fundamental tool in the struggle against poverty
- The Peruvian economy presents a strong perspective of growth and stability annual inflation rates at single-digit levels, GNP growth rate of 5% to 6%, declining current account deficit and exports growing faster than the GNP
- The legal framework for the financial system is inspired by the principles of the free market and universal banking institutions, it establishes a rigorous supervision and envisions a flexible treatment to promote the development of small banks that are specialized in microfinance
- Terrorism is clearly in a process of being exterminated

3 The Market Environment for Microfinance is characterized by

3 1 A total Potential Demand for Financing from the small and microenterprises, urban and rural, estimated to be US\$ 4,500 million, with

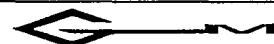


a supply that barely reaches US\$ 250 million, resulting in there being a 95% deficit, leaving the microentrepreneurs at the mercy of usurers. For purposes of analysis, we can divide the microenterprise demand for credit into three categories:

- 3.2 **Segment A**, seeking individual credits of US\$ 3,000 and more, and having a total potential demand of US\$ 450 million, is attended to by the commercial banks and some "cajas municipales and cajas rurales" (small regional and local banks) in a magnitude that corresponds to 20 %-30 % of its demand.
- 3.3 **Segment B**, demanding individual credits between US\$ 500 and US\$ 3,000, and having a total potential demand on the order of US\$ 1,500 million, which is attended to by CREDINPET (a former NGO that became a financial institution under official supervision), the larger NGOs and most of the "cajas municipales and cajas rurales." It is estimated that about 5 % of the total demand is attended.
- 3.4 **Segment C**, requiring individual credits of up to US\$ 500, for a total potential demand on the order of US\$ 2,700 million, and is attended to only by a few NGOs, in a magnitude that represents only about 2% of the demand.

4 The **Village Banking Model**, utilized by the evaluated NGOs, presents the following **Strategic Strengths**:

- 4.1 Transfers Transaction Costs to the Borrowers, which Reinforces its Sustainability. Being based in the organization of groups of borrowers who undertake credit decisions on a shared basis, the Model enables sustainable financing services to be offered to the poor. This is possible since the Village Banks work at reasonable operating costs because the NGOs transfer the transaction costs to the groups of borrowers, and thus neutralize the high costs that alternative credit technologies incur in their management of many small loans.
- 4.2 Promotes the Habit of Savings and Capital Accumulation. Savings constitute the seed capital that grows as the borrowers' groups acquire experience in their businesses. In this way, poor areas can mobilize local financial resources that otherwise would be idle or being transferred to other regions through the commercial banks.
- 4.3 The Utilization of the Microentrepreneurs' own Savings as a Source of Financing Minimizes the Risk of Payment Arrears and/or Default. The employment of their own savings as a source of funds induces the borrowers to be responsible in the repayment of loans.
- 4.4 The Use of Peer Social Pressure. The soundness of the local grass roots organizations on which the Village Banks are organized -- in the cases



of CARE-Peru and PROMUC -- and the system of guaranteeing the loans via peer groups, are effective deterrents to delinquent behavior. Although FINCA-Peru does not work with pre-existing organizations, it also uses peer pressure with positive results.

- 4 5 The Interchange of Experiences in Small Business by Borrowers The periodic meetings of the borrowers are good occasions for the exchange of business experiences and other matters of common interest among the members.

5 The Village Banking Model presents the following **Strategic Weaknesses**

- 5 1 An Absence of Mechanisms to Retain the Successful Entrepreneurs When the funds saved by some borrowers reach a certain level, normally after the first year, and/or when the limit of the amount of the loan permitted per client is below the demand for working capital of these clients, they tend to abandon the group in order to continue their accumulation process. This problem has been addressed by CARE-Peru, which has another line of credit -- PRODEMI -- and less extensively by FINCA-Peru and PROMUC.

- 5 2 A Tendency of the NGOs to Systematic Lose Equity to the Village Banks Although the Model in its entirety is sustainable, the NGOs tend to systematically lose equity.

- From their assumption of the costs of supervision and technical assistance linked to the management of the so-called Internal Account
- The interest rate that members receive for their savings is as high as the rate that the borrowers pay for the loans
- The benefits to the Village Banks are artificially inflated because the cost of funds for the Internal Account is zero and the costs of supervision and technical assistance are assumed by the NGOs

- 5 3 A Tendency of the Borrowers' Repayment Capacity to Lower Over Time This is due to the obligation of the clients to attend frequent meetings of the Village Bank, particularly after the second loan, which negatively affects their competitiveness and payment capacity.

- 5 4 Loss of Vital Information for Decision-Making on Risk Analysis The NGOs record the information on each borrower, but this data remains at the Village Banks and is not consolidated at the NGO level, thus impairing the formation of vital credit policies regarding portfolio concentration by economic activity. In the case of FINCA this information is consolidated at each local office and it is feasible for them to consolidate at national level.

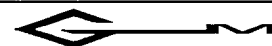
6 To consolidate the sustainability of the Village Banking Model, it is necessary to adopt a set of congruent strategies at the level of USAID and MSP, as well as at the level of the three NGOs under analysis, as is explained as follows

6.1 At the **USAID and MSP** level, the adoption of the following strategies is **recommended**

- The promotion of the creation of a formal Second-Tier Bank Specialized in Microfinance, with the capacity to
  - ⇒ Participate as shareholders or underwriters in first-tier microfinance institutions
  - ⇒ Directly solicit funds from international donors and other sources, and to channel them through credit lines to first-tier institutions
  - ⇒ Permanently evaluate the risk of the first-tier credit institutions, and
  - ⇒ Offer technical assistance, training and research support to first-tier institutions
- The promotion of specialized and efficient institutions in microfinance with capacity to be sustainable within two years, in order to facilitate the widespread access to microcredits by Segments B and C of the microenterprise community
- To systematize the credit technologies based on the Village Banking Model, introducing improvements that have been validated in practice that permit the sustainable development of credit in the mentioned segments B and C, mobilizing the local financial resources, with individual loans from US\$ 50 to US\$ 3,000 at market rates of interest
- To promote the specialization of the NGOs devoted to credit and savings services, leaving the technical assistance functions and training in hands of other institutions that may or may not be affiliated
- To promote the adoption of accounting and information systems used by commercial banks. The information system should simultaneously do the follow-up of the portfolio and the corresponding accounting registers in order to have accurate and timely information for management decision making
- To introduce measures that will contribute to the increase of the productivity of the microfinance institutions, with the goal of their achieving sustainability within a reasonable time

6.2 At the level of the **NGOs** studied in this evaluation, the adoption of the following strategies is **recommended**

- The widespread use of mechanisms to retain the successful clients who need larger loan amounts
- To persuade their Village Banks members to share the benefits obtained by the high interest rates they receive from their savings with the NGOs, which should receive 50% of the interest collected as compensation for the operational costs of supervision and control
- The reduction of the frequency of meetings for clients with relatively good payment records. In this way the burden over the clients will be diminished and credit officers will have more time for making loans
- The introduction of adequate information systems in order to improve the decision making process
- To significantly increase their productivity in order to attain self-sufficiency. The best and simplest way to measure productivity is the ratio between portfolio size and number of employees





## **I BACKGROUND, AGREEMENTS AND RESULTS**

### ***A Background***

- 1 The Microenterprise and Small Producers Support Project (MSP) (Agreement USAID/ADEX N° 527-0349-A-00-12275 -00) in May 16, 1997 called for bids to contract consult services in order to Evaluate the Antipoverty Credit Program APPLE/AASP, which is implemented through specific agreements with three Peruvian NGOs FINCA-Peru, CARE-Peru and CRS-Peru
- 2 MAXIMIXE Consult S A, a Peruvian consulting firm, won the contract and committed to accomplishing the evaluation in a term of 30 calendar days after the signing of the contract

### ***B The Microenterprise and Small Producers Support Project (MSP)***

#### **1 Goal and Purpose**

- 1 1 Goal To promote a widely based economic growth through the growing participation of the poor population in the economy
- 1 2 Purpose To increase the income of the microentrepreneurs and small rural and urban producers, who from now on will be called clients of the MSP, and to strengthen their grass roots organizations

#### **2 Strategy**

To facilitate to the small producers' and microentrepreneurs' access to markets for their products that have effective demand and to support the grass root organizations to better attend the needs of their members

#### **3 Components and Activities**

##### **3 1 Component One Access to markets**

- Support the small and microentrepreneurs to identify goods and services with effective demand, and
- Facilitate the connection between producers and buyers

##### **3 2 Component Two Technical Assistance**

- To support the clients of MSP to increase their productivity and competitiveness

### 3.3 Component Three Credit

- To administer antipoverty credit funds
- To design and verify the use of a banking model for small loans
- To contribute with funds of counterpart and technical assistance in credit management to other donors and NGOs
- To promote the mobilization by ADEX and its sub-contractors of other resources for credit financing, in order to assure the sustainability of these activities

### *C The APPLE/AASP Antipoverty Credit Program*

#### 1 Background

1.1 APPLE/AASP, in the framework of Component Three of the MSP Project, has agreed with its counterparts to share information in order to incorporate the experience obtained with the antipoverty credits in the general current of promotion and technical assistance activities of MSP

1.2 On September 29, 1994, within the framework of MSP, ADEX signed agreements with FINCA-Peru, CARE-Peru and CRS-Peru, in order to provide credit to poor women. These agreements, designated as the Antipoverty Credit Program APPLE/AASP, are valid until September 30, 1997. The total amount is US\$ 2,581,7000, financed by MSP/AID (US\$ 2,117,300) and counterpart contribution (US\$ 464,400) according to the following details

PROJECT TOTAL AMOUNT (in US\$ thousands)				
	Total	FINCA	CARE	CRS
Total	2,581.7	540.9	906.1	1,134.7
MSP/AID	2,117.3	443.7	846.1	827.5
Counterpart contribution	464.4	97.2	60.0	307.2

1.3 The execution of the budget as of March 31, 1997, was as follows

Executed up to March 31, 1997 (in %)				
	Total	FINCA	CARE	CRS
Total	<u>63.6</u>	<u>68.4</u>	<u>55.3</u>	<u>67.9</u>
MSP/AID	66.8	68.7	54.5	78.3
Counterpart contribution	49.0	66.9	66.7	39.9

1.4 In addition to the resources provided by MSP the contracted NGOs have other sources of funds to finance credits to small producers. The attention to the clients is made in function of the availability of funds, therefore the same client may have financing from MSP on some occasions and, on other occasions, financing from other sources.

1.5 The analysis that follows is based on information provided by each NGO and we consider to correspond solely to MSP funds, as indicated by our informants.

## 2 Sources of Financing

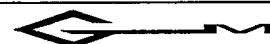
The funds are provided by USAID and are earmarked at the following projects: Micro and Small Producers Support Project (MSP), Anti Poverty Lending for Enterprises (APPLE), PRIME Project, and the USAID Mission in Peru.

## 3 Technical Support

Since April 1995, the APPLE Auxiliary Support Program (AASP), has given technical assistance to the three NGOs of the APPLE Grant program as well to other NGOs interested to implement anti poverty lending programs. The AASP was implemented by the MSP and had the technical support of Louis Berger International Inc. (LBI). The initial budget was of US\$ 450,000 for the period April 1995/September 1997. In September 1996 an additional US\$ 150,000 was added to support the expansion of the program.

## 4 Purpose

The Purpose of APPLE/AASP is to facilitate small credits, through specialized intermediaries, to poor women in order to produce goods or services to be sold in the marketplace, and thereby improve their personal and family income.



## D The Agreement with FINCA-Peru

### 1 Amount of the Agreement

	Budget (US\$ '000)	Dispersed as of March 31, 1997
Total	540 9	369 9
MSP	443 7	304 9
FINCA-Peru	97 2	65 0

### 2 FINCA-Peru

2 1 FINCA-Peru was established in 1993 and is affiliated with FINCA-International, a non-profit organization based in Europe, the Far East, Latin America and Africa, in order to contribute to the alleviation of poverty through the improvement of the living conditions of the poor by providing them small credits through the Village Banking System, a methodology that has been designed and perfected by FINCA-International. Mr. Aquiles Lanao, the President of FINCA-Peru, is a founding member of FINCA-International.

2 2 In addition to the resources provided by the MSP, FINCA-Peru counts on the financial support of FINCA-International, the Inter-American Foundation (IAF), and Rotary International.

2 3 The institutional development of the Village Banking System has followed four stages:

- **Stage I - Start-up** -- Consisted of identifying and training the key staff and adjusting the methodology of VBs to the local conditions. It began with 50 VBs, having a total of 1,250 members with savings totaling US\$ 50,000. This Stage lasted approximately a year and has been financed by the IAF.
- **Stage II - Consolidation** -- Consisted of the reinforcing of the staff and institutional equipment, and the constitution of 100 VBs with 2,500 members and a US\$ 100,000 portfolio. 34.5% of the operating costs were to have been covered by the interest paid on outstanding loans. This Stage also was estimated to last a year and was funded by the IAF.
- **Stage III - Growth and Sustainability** -- Estimated duration of three years, at the end of which there will be 400 VBs having 10,000 members and an outstanding portfolio of US\$ 1 million. In this Stage all costs should be covered by the interest flowing from the loans into the Village Banks. This Stage counts on the support of MSP and other sources of financing, and it is currently being implemented.

- **Stage IV - Expansion to National Scale** -- In this Stage there should be an expansion to 800 VBs with 18,000 members and an outstanding portfolio of US\$ 2 million

2.4 The Village Banks are organized by FINCA-Peru, according to the following procedures

- Poor women who live in slums and undertake small economic activities for their living are identified. They are neighbors and know each other. As soon as 30 women are selected on the basis of references of the local priest or somebody else that is reliable, then the next step follows
- After a general information meeting, a four-member Administration Committee is elected democratically among themselves and it is agreed that in the following meeting, a week later, each member should bring US\$ 2 to constitute a fund of US\$ 60 that will be lent to the members who request it and whom the Assembly of the membership agrees should receive loans

2.5 The first US\$ 60 in savings are lent for two weeks to members in the amount of US\$ 15 each and with an interest of US\$ 1, equivalent to an effective annual interest rate of 370.6 %. This process is repeated and after four weeks the members have saved US\$ 240, and the interest earned totals US\$12. These funds are returned to the members of the group, and in this way they learn that it pays to save

2.6 At this time, the Assembly decides whether to establish a Village Bank or to dissolve the group. If the decision is to establish the VB, FINCA-Peru lends them US\$ 50 or 100 for each member, with which the VB constitutes its so-called External Account

2.7 The FINCA-Peru External Account loans are disbursed under the following terms

- Period: 16 weeks to be repaid in four equal installments beginning with the fourth week,
- Effective annual interest rate: 42.6 %
- The members of the VB are obliged to save certain amount of money each week
- In addition, each member may save an amount that she wants
- Weekly meetings must be carried out, and the members are obliged to attend on time. Absences and late arrivals to the meetings are subjected to fines

2 8 With the proceeds from the recovery of the External Account loan, the obligatory savings, the voluntary savings if there are any, the fines for loan defaults and lack of attendance at the meetings, the VB constitutes the so called Internal Account that is used for

- Repaying the working capital loan to FINCA at the end of 16-weeks
- Providing loans to their members for periods from four to eight weeks, at annual effective interest rates of 43.1%
- When the VB uses its own savings to implement the so called Internal Account and lend to its members, the annual effective rate of interest is 27.5%
- The amount of the loans to members increases when they can demonstrate punctuality in their payments and greater working capital requirements

2 9 At the end of the first 16-week cycle, an evaluation is performed

- If the evaluation is not satisfactory, the VB is dissolved and the savings are distributed among the members
- If the evaluation is satisfactory, a new cycle is initiated with a larger loan from FINCA for the External Account at the same interest rate and under the same conditions as the first loan. The amount of new loans from FINCA depends on the amount of the savings of the VB
- After three years the VB is considered "graduated," and is up to the members to decide whether to continue operating independently or maintain its affiliation with FINCA, and thereby receive new loans

2 10 When the amount of credit required by a particular member is greater than the amount that can be attended to by the Internal Account, FINCA can finance an additional loan to the VB in order to form a so-called Extraordinary Internal Account. In these cases the VB is required to have savings of at least US\$ 1,000, no outstanding loans in default, a membership demonstrating capacity for payment. There is also the Campaign Account for special occasions such as Christmas and Mothers' Day

2 11 The savings are put in individual accounts of each member (since the amounts vary according to the level of her voluntary savings), and in case that a member wants to withdraw from the VB, she can take the total amount of her savings, later join the same or another VB. Should a member be separated for not complying with VB regulations, no other VB will accept her

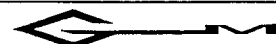
- 2 12 Credit applications are evaluated by the Administration Committee with the active participation of the Promoter, and the decision is taken by the Assembly during its weekly meetings. The loans are guaranteed by all members of the VB. If one of the members defaults on her loan payment, the money is taken from her savings. Should these funds be insufficient, then the savings of the entire group are affected in order to make the payments due to FINCA-Peru. This procedure constitutes the mechanism that assures FINCA-Peru the recovery of its loans.
- 2 13 The Internal Account tends to show arrears (2 % to 3 %), but these do not reach unmanageable magnitudes, since at the end of each cycle, the missing funds are covered with the savings of the group and the borrower in default is sanctioned with her separation from the VB.
- 2 14 The meetings of the VBs are weekly, and all transactions are conducted in cash. The Administration Committee keeps the records in hand-written notebooks, and prepares periodic reports to FINCA. The Promoter is present at all the meetings.
- 2 15 In Ayacucho, the meetings are held in the FINCA headquarters, where meetings of the VBs are held on fixed days of the week. In Lima, the meetings are carried out in the home of one of the members of each Village Bank.

### **3 Goal and Purpose of the Agreement**

- 3 1 **Goal** To increase the income and the employment opportunities of the microentrepreneurs in Peru, and therefore to increase their contribution and participation in the benefits of economic growth.
- 3 2 **Purpose** To reinforce, consolidate and expand the Village Banking system in order to
- Provide low-income women with small loans to act as working capital for their economic activities
  - Develop savings habits among the women that receive loans
  - Stimulate the capacity for democratic management within their communities

### **4 Target Population**

- 4 1 Self-employed low income women, who include
- Women who have migrated with their families to escape from terrorism or in search of better living opportunities, and inhabit the slums



- Women who perform economic activities in microenterprises and lack working capital

4 2 **Results** FINCA-Peru has expanded its activities to groups of poor women that accomplish economic activities in microenterprises and that are generally migrants of areas affected by terrorism

## 5 Geographical Areas

5 1 Department of Ayacucho Huamanga and Huanta provinces  
Metropolitan Lima Villa El Salvador and Canto Grande districts

### 5 2 Results

- The existing Village Banks in Huamanga and Huanta have been strengthened and new banks have been organized
- In Villa El Salvador and Canto Grande, two heavily populated districts of Lima where many of the migrants escaping from terrorism have come, new Village Banks has been established
- In addition, although not required in the Agreement, FINCA has established two VBs in Huancavelica, an area of extreme poverty, according to the Poverty Map drawn by FONCODES (Peruvian Government Safety Net Program)

## 6 Components

### 6 1 Microenterprise Support Services

- **Objective** Expand the network of Village Banks supported by FINCA-Peru, and increase of the amount lent to the VBs for working capital as well as for fixed assets
- **Results** FINCA has increased the number of Village Banks and the amount of the loans



Goals and Achievements

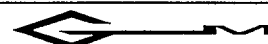
	Goals for Sept 30, 97	Achievements as of March 31, 97
• N° of New Village Banks	75	123
• N° of New clients	2,125	2,460
• US\$ lent per new client	96 7	124 0
• Savings of new VBs (US\$ '000)	374 1	302 2
• N° of Members per Old VB	30	20
• US\$ lent per Old VB member	300 0	289 6
• NGO funds (US\$) per Member	--	123 7
• VB funds (US\$) per Member	--	165 9

**6 2 Institutional Development**

- **Objective** To strengthen FINCA's operational capabilities to
  - ⇒ Offer quality services to their Village Banking network, and
  - ⇒ Secure the efficient management of its growing portfolio
- **Results** FINCA's operational capabilities have been strengthened, but there are still limitations in its management of its portfolio
- **Specific Targets**
  - ⇒ Contract and train a new supervisor, three loan officers and a computer operator in the Ayacucho branch
  - ⇒ In Lima and Ayacucho, raise the wages of three loan officers and the administrative assistant,
  - ⇒ Accomplish training activities of the personnel, and
  - ⇒ Acquire computers and office equipment
- **Results** Relevant administrative measures have been undertaken, such as hiring new support personnel, the increase of wages and the acquisition of office equipment and computers

**6 3 Technical Assistance**

- Provided by MSP/AASP to FINCA in order to disseminate the experiences and to strengthen the methodologies employed
- **Results**
  - ⇒ The development of adequate methodology to draw up a Strategic Plan
  - ⇒ The improvement of periodic reports
  - ⇒ The development of criteria to monitor credit activities
  - ⇒ Training seminars for credit officers



- ⇒ The participation of the staff in field visits to other microfinance programs in Central America and the USA
- ⇒ Legal advice in order to clarify if the NGOs were obliged to pay the Value Added Tax for their credit operations. The conclusion was that they must pay, and FINCA is doing so
- ⇒ The development and evaluation of an Information System and the improvement of the accounting practices

## **7 Conclusions**

7.1 Six months prior to the termination of the agreement, FINCA has

- Adjusted the development of its activities to the Purpose and Goals of its agreement with USAID/MSP
- Achieved the targets to which it committed itself
- Expanded the Village Banking system and amplified its geographical coverage

7.2 Although one can observe improvements in the administrative capability of FINCA, it cannot be affirmed that it has "assured an efficient management of its portfolio" due to the following deficiencies

- The accounting information is processed with considerable delay that impairs its usefulness as a decision making tool
- The general ledger does not follow accepted practices for financial accounting, so it is not possible to obtain operational cost coefficients, data regarding the quality of the portfolio, profitability, and other indicators that are indispensable for a proper management of the credit portfolio
- The NGO lacks adequate financial software that would permit it to process information with respect to its portfolio electronically. Although recently they have introduced a new Information System that promises to solve the problems
- The reconciliation of the movements of the portfolio with the corresponding accounting registration requires a very cumbersome, labor intensive process that is not automated
- FINCA does not keep track of indicators that could increase the productivity of the personnel, and therefore increase the profitability of the NGO

- The information on the portfolios of each member is found only at the VB level, there are no consolidated records at central level
- Formally the Village Banks do not have arrears with FINCA, but the arrears of the members to their VBs seem to be greater than previously believed, but due to lack of adequate accounting records it is not possible to assess its magnitude
- All the transactions are in cash and, although there is a relatively efficient control from peer pressure (the operations are accomplished in presence of the entire Assembly), this mechanism has serious limitations when it comes to disseminating the system beyond its current confines
  - ⇒ Some cases of fraud have occurred in the recent past
  - ⇒ The lack of security has contributed to some cases of robbery by common thieves

### 7.3 The technical assistance of MSP/AASP has

- Contributed to a better knowledge of the antipoverty credit methodology
- Helped FINCA to strengthen its administrative capacity. FINCA still must improve its practices, however, particularly in the areas of accounting, portfolio monitoring and a general strategy to pursue sustainability

## *E The Agreement with CARE-Peru*

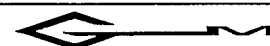
### 1 Amount of the Agreement

(US\$ '000)

	Budget	Spent as of March 31, '97
Total	906.1	501.3
MSP	846.1	461.3
CARE-Peru	60.0	40.0

### 2 CARE

- 2.1 Is an international private organization, whose central headquarters are in Brussels and the regional headquarters in Atlanta, Georgia. It is an active member of the Small Enterprise Education and Promotion (SEEP) Network and collaborates regularly with the USAID-funded Project GEMINI. It has operated in Peru since 1970 under the name of CARE-Peru.



- 2 2 CARE-Peru is a founding member of COPEME, a consortium of Peruvian NGOs that supports microenterprises that receives technical support from the Atlanta office and from the regional CARE office in Costa Rica
- 2 3 CARE-Peru implements several development projects in support of Peru's poor population. These projects can be grouped in the following topics: Food Support, Agriculture and Natural Resources, Health and Water Supply, and Support to Small Economic Activities
- 2 4 CARE-Peru's Department of Small Economic Activity Development was initiated in 1985 and currently includes two projects: the Microenterprises Credit Project and the Women's Income Generation Project (WIG). At the end of 1996, these two projects had a total portfolio of approximately US\$ 5 million and about 5,000 clients, if each Rotating Credit Fund (RCF) is considered as one client. If we include the members of the RCFs, the number of clients would be about 12,000
- 2 5 On the basis of these projects CARE-Peru is constituting a chartered financial institution called EDPYMES Edyficar that already has been given the Authorization of Organization by Peru's Superintendencia de Banca y Seguros - SBS (Insurance and Banking Superintendency), and is in the process of getting the Authorization to Operate, which it could receive in the last quarter of this year
- 2 6 The WIG began activities in 1989. They started with women's groups that had participated in the Integrated Nourishment Development Project (PRODIA). In addition to the resources of APPLE, the WIG is funded by sources of financing: FONCODES, the Peruvian Ministry of Economy and Finance, FONDEMI -European Community-, Help, USAID Title II, Continental Grain, Yanacocha Mining Corp. and A. Dean, in addition to its own resources
- 2 7 The WIG implements two lines of credit with these financial resources: The individual loans, called PRODEMI Mujer, and the Rotating Credit Funds for women's organizations

### **3 The Rotating Credit Funds (RCF)**

- 3 1 The WIG selects the "comedores populares" (a sort of community kitchens long promoted by different Peruvian administrations on the basis of food donated by the USA) that have a good record in the PRODIA program, and the majority of whose members perform small economic activities to make their living
- 3 2 After three motivational and training sessions, the selected group formed by 20 to 30 members organize a Rotating Credit Fund (RCF), and CARE lends them an amount of local currency equivalent to US\$1,200 in

Lima and US\$ 1,500 outside Lima. The loans are disbursed under following conditions

- Term Variable, between 3 and 17 months, with a grace period that is also variable between 3 and 17 months
- Interest rate 4% monthly upon outstanding balances, to be paid monthly, for an effective annual interest rate of 60%. This is equivalent to 51% in dollars
- No real collateral is required. The signed commitment of all the members of the "comedor popular" is considered sufficient

3.3 The RCF is administered by a Credit Committee consisting of three members elected in Assembly of the membership of the "comedor popular". The RCF is used to provide credits to the community kitchen members in local currency in amounts equivalent to US\$ 50 to US\$ 200, payable in three months with 6% monthly interest on the balance, equivalent to an annual effective interest rate of 101.2%, or 92.2% in dollars

3.4 The guarantees for the loans to the members are of a "solidarity" type, with each member seeking credit finding her guarantor among her peers in the RCF

3.5 The 41.2% spread between the interest charged for loans and the interest paid on savings is capitalized within the RCF, rather than at each members' account, making unnecessary any obligatory and/or voluntary savings on the part of the members

3.6 The members of the community kitchen, in presence of the credit officer of CARE, meet every two weeks in the first loans and in the following loans, the meetings are spaced once a month and finally there are no more meetings, being considered sufficient that the borrowers go to the RCF personally to pay their obligations or to receive new loans. The locales of the community kitchen generally have been built by the government and donated to the group

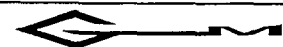
3.7 The accounts are recorded in notebooks by hand and with much detail. Most of the transactions are made by means of commercial banking accounts, although some of them are made in cash

3.8 After 18 months CARE-Peru evaluates the situation and it may continue with the financing of new loans up to an amount of US\$ 6,000, for a maximum term of 12 months and without any grace period. No real collateral is asked

- 3 9 The members who demonstrate punctuality in their payments and require larger loans, in amounts up to US\$ 3,000, are attended to by the Individual Loans Line of the WIG, funded with resources other than those from MSP. The conditions are the same as those for smaller loans.
- 3 10 A client cannot have a group loan and an individual loan simultaneously, but she can remain a member of the RCF without having a group loan.
- 3 11 Should a member client require an even greater loan amount, or should the WIG not have sufficient capital, she will be transferred to CARE's Microenterprises Credit Project, which finances loans under the same conditions as the WIG.
- 3 12 After 18 months the organizations are considered "graduated", being free to operate independently or maintain their affiliation to CARE. In the latter case, they continue to receive loans from CARE but are no longer provided with technical assistance.
- 3 13 In the event of a default by any borrower, the RCF uses its accumulated resources to pay its obligations to CARE-Peru. In this manner, the RCF does not accumulate arrears with CARE.
- 3 14 If a client member does not pay her obligations to the RCF, she is excluded from the group and is not permitted to enter any other group supported by CARE.
- 3 15 On certain occasions, the community kitchen may carry out special activities to collect funds to pay the arrears of some members or for the acquisition of fixed assets or property for the entire group.

#### **4 Purpose, Objectives and Targets**

- 4 1 **Purpose** To significantly improve the living conditions of poor women and their families through an increase in their incomes that will be sustainable in the long run.
- 4 2 **Results** According to the answers of 70 % of the client members to the survey done by the consultants, the availability of loans to improve their small businesses has brought about an important increase in their incomes, and has also permitted them to guarantee the sustainability of their economic activities.
- 4 3 **Objectives**
- Increase the family incomes of the participating women as a result of their access to credit and the training that they receive from the WIG.



- Improve the management and technical abilities of the women participating in the program
- Enhance the self-esteem of the women as well as their status in their families and in the community
- Achieve access to credit within the formal banking system for the participating women gain through the good management of their RCFs
- Develop a model system of small credits for poor women that can be widely replicated

#### 4 4 Results

- The above-mentioned objectives have been reached to a high degree
- CARE has incorporated interesting innovations into the Village Banking credit model that we will examine later on, but in the opinion of the consultants it is not yet possible to demonstrate that the model can be considered self-sustainable or worthy of being widely replicated

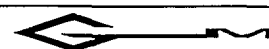
#### 4 5 Goals and Results

	Goals for Sept 30, 1997	Achievements as of March 31, '97
• Number of Rotating Credit Funds	332	238
• Number of Clients	5,070	3,975
• Loans (US\$) per New Client	100	76
• Clients receiving Technical Assistance	--	716
• RCFs with credit	--	114
• Number of RCF clients graduated	1,620	4,425
• Loans (US\$) per RCF client graduated	--	185

4 6 MSP/AASP technical assistance to CARE, to diffuse its experience and to strengthen its methodologies

4 7 Results Within the framework of the agreement, AASP has provided support to the personnel of CARE to become familiar with similar experiences as well as to improve their techniques and procedures, particularly in the following areas

- The improvement of periodic reports
- The development of criteria to monitor credit activities
- Training seminars for credit officers



- The participation of the staff in field visits to other microfinance programs in Peru and abroad (Central America and USA)
- Legal advice in order to clarify if the NGOs were obliged to pay the Value Added Tax for their credit operations. The conclusion was that they must pay
- The development and evaluation of an Information System, called CREDIPAGOS, to monitor the portfolio at the level of individual borrowers and to facilitate the consolidation of the data for management reports

## **5 Target Population**

- 5.1 Poor women of the slums and surrounding rural areas of Metropolitan Lima, Trujillo, Puno, Juliaca, Chimbote, Cajamarca, and Piura
- 5.2 **Results** Using its infrastructure in place for other programs and funds provided by MSP, CARE has extended the support for increasing the incomes of poor women in the areas indicated above

## **6 Conclusions**

- 6.1 As a general conclusion, CARE is on the way to achieving the targets and goals established in the agreement, although it has not yet developed a Microcredit Model that is worthy of being widely replicated
- 6.2 The technical assistance provided by AASP has been provided in an efficient manner and has contributed to the decision of CARE to constitute a credit institution within the framework of the banking legislation
- 6.3 CARE, in its conceiving of the credit support to the poor in a continuum from group loans starting at US \$100 per client to individual loans of up to US \$3,000 that are disbursed through several programs and several sources of financing, has achieved
- A strategic advantage over other NGOs, and as a result of its experience and of intensive internal debates, has agreed to separate its credit programs and establish a new financial institution within the framework of the banking legislation, called EDPYMES Edificar
  - With this decision, CARE will use the very important social base constituted by the community kitchen, organized and consolidated throughout several years, to offer financing to poor populations, employing an advanced credit technology



## *F The Agreement with CRS-Peru*

### **I Amount of the Agreement**

(US\$ 000)

	<b>Budget</b>	<b>Spent as of March 31, 1997</b>
Total	<u>1,134 7</u>	<u>770 4</u>
MSP	827 5	647 9
CRS - Peru	307 2	122 5

## **2 Catholic Relief Services (CRS)**

CRS is a non-profit private organization of the United States Catholic Episcopal Conference whose purpose is to alleviate the suffering and to promote the economic, social and human development of the poor of the world

## **3 PROMUC**

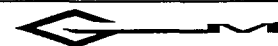
CRS has agreed with six Peruvian NGOs to create a consortium called the Consorcio de Promocion de la Mujer y la Comunidad - PROMUC in order to

- 3 1 Develop a microfinance system for poor women using the village banking methodology that is known as "La Chanchita," incorporating several modifications in order to improve its socioeconomic impact and the quality of its credit management
- 3 2 Assume responsibility to supervise and monitor the participating NGOs
- 3 3 Transfer technical knowledge in credit management from CRS programs elsewhere in the world to the participating NGOs

#### 4 The La Chanchita ' Village Banking Model

The "La Chanchita" model used by CRS/PROMUC has the following characteristics

- 4 1 The VBs are constituted by each NGO in local community organizations (community kitchens, mothers' clubs, peasant groups known as "rondas campesinas," and others), identifying in each the members who develop small economic activities. Each VB has on average 30 members.
- 4 2 After three training meetings in credit management, CRS/PROMUC conducts an evaluation of the new VB, and the group democratically elects a Credit Committee consisting of three members and the NGO's credit officer. If the evaluation is favorable, the NGO finances a loan to the Village Bank as seed capital, in order that the VB can make loans to their members.
- 4 3 The first loan of the NGO to the Village Bank constitutes the so-called External Account, is in the amount of US\$ 100 for each member of the bank, and is to be paid back under the following conditions:
  - Term: Four months. The principal is returned in four or eight quotas starting at the end of the first period.
  - Interest rate: 2.5% flat monthly, that is, it is collected once or twice monthly, constituting an effective annual rate of 58.7% if collected monthly or 67.3% if collected every 15 days.
- 4 4 With the seed capital received, the Village Bank finances loans to its members under the following conditions:
  - Term: payments in two or three two-weeks periods. The principal and corresponding interest is collected from the first two-week period.
  - Interest rate: 3% flat monthly, including 0.5% that the Credit Committee reserves for management expenses. The effective annual rate is 73.3% as a result.
- 4 5 The VB also lends to non-members under the same terms as those for their members, and at a flat 5% interest rate, equivalent to an effective annual rate of 136.75%.
- 4 6 Furthermore, each month the members must save 5% of the loan she receives, so that at the end of the four-month cycle each borrower has savings equivalent to 20% of the loan. There are also voluntary savings, with no fixed magnitude.



4.7 With the money from obligatory and voluntary savings, and fines for loan default and for lack of punctuality at the meetings, the 0.5% interest on the loans from the External Account, the VB constitutes the so-called Internal Account, which is used to

- Provide loans to its members under the conditions described in section 4.4
- Provide loans to non-members under the conditions described in section 4.5

All income, including the interest generated from loans, is capitalized in the VB and registered in each member's account

4.8 At the end of the four-month cycle, an evaluation is conducted and the accumulated savings of the VB, and thus the net payments to the NGO, is determined

- If the evaluation is unsatisfactory, the savings are distributed among the members and the VB is dissolved
- If the evaluation is satisfactory, a new cycle begins with a loan under the same terms and conditions as the first loan
- The amount of the second and following loans is equal to the first loan plus a variable in proportion to the savings accumulated in the VB
- The process continues until the completion of nine cycles in three years
- In periods when VB members conduct special sales campaigns (Christmas, Independence Day, etc.) the NGO may approve additional loans to the VB, which are designated as the Complementary Account. In these cases, the monthly interest rate is 4%, equal to an effective annual rate of 106.6%

4.9 The maximum amount that a VB can lend to its members or to third parties is

- From the External Account, between US\$ 100 and US\$ 325, depending on factors mentioned below
- When added to loans from the Complementary Account a VB can lend up to US\$ 600 to a member. In exception cases, it can lend up to a maximum of US\$ 1,000
- The maximum size of the loans is variable, depending on the member's punctuality in the payment of previous loans, the amount of their accumulated savings, and their payment capacity

4 10 Credit applications are approved according to the following sequence

- The evaluation of the requests is undertaken by the Credit Committee, which submits a proposal to the Assembly of members that meets every two weeks during the first loan and monthly in the following loans
- The Assembly makes the final decision, been very rarely does it differ from that taken by the Committee
- The loans have no real guarantees, but count on the collateral of the entire community of VB members

4 11 If one of the members enters into default

- The VB asks her to make her payments up-to-date. If she does not comply within a prudential term, the VB may decide to do so with funds from the savings account of the member in default
- If the member does not have sufficient savings, the group's savings will be used for the payment
- In this way, neither the External Account nor the Complementary External Account accumulate defaults

4 12 The Internal Account tends to accumulate arrears, and the recuperation of these funds follows the same set of procedures

- This mechanism results in there formally being no bad debts, but in fact, bad debts are deducted from the funds of the VB
- The members that do not pay the contracted debt are sanctioned with separation from the group, but there are no procedures to compel them to comply with their obligations

4 13 The transactions are made in cash at the meetings of the Assembly, at the home of one of the members. The committee keeps the accounts by hand in special notebooks, and prepares periodic reports for the NGO

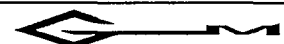
## 5 Target Population

The program is directed to poor women in city slums and rural areas, where the participating NGOs are already active in other activities

## 6 Purpose

To increase the income and employment of 4,900 female microentrepreneurs and their families through an infrastructure to provide antipoverty loans that is constituted by six NGOs. Alternative, ARARIWA, CARITAS-COBIS, EDUCA, IDEAS and CES Solidaridad

6 1 **Results** CRS has summoned the mentioned NGOs with which has constituted PROMUC, but this instance yet shows serious limitations



revealed in the lack of clarity between the roles played by CRS as such and PROMUC, as well as in the absence of reliable and consolidated financial information of the member NGOs

## 7 Objective and Goals

7.1 **Objective** To develop, implement and monitor an antipoverty loan system using the "La Chanchita" Village Banking Model in 245 VBs with 4,900 members that will permit each member to increase their income by US\$ 25 per month

### 7.1 Goals and Results

	Goals for Sept 30, 1997	Achievements as of March 31, 1997
• Number of Village Banks	245	138
• Number of Clients	4,900	3,324
• Average Loan Amount per Client (US\$)	200	162
• Average Increase in monthly income per Client (US\$)	25	??*

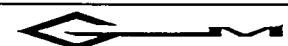
\* PROMUC's data base will be used to calculate this result at the end of the Project period

### 7.3 Objective Number Two

- Develop, implement and monitor the Financial Information System (FIMS) for purposes of accounting, financial control, portfolio management and cost recovery at levels of the Village Banks, the participating NGOs and CRS/PROMUC
- Develop, implement and monitor a System of Impact Measurement (SIM) at level of the clients that will include changes in client income, nutrition, health, education and housing conditions

### 7.4 Results

- With respect to the FIMS we consider important to point out the following
  - ⇒ The Objective seems to be too ambitious
  - ⇒ Although CRS has made various attempts, it has not achieved the sought-after results, therefore
  - ⇒ There is no reliable system that is functioning
  - ⇒ Only recently has CRS asked MSP/AASP to support them in this objective



- Similarly, the System of Impact Measurement has not achieved advances, although CRS informs us that they have compiled a data base that contains socioeconomic information from all the participants that enter the program, and that they have developed instruments for their evaluation

**7 5 Objective Number Three** Develop, implement and monitor a comprehensive training and technical assistance program for NGO managers, and for credit officers and members of the Village Banks, that includes the following activities

- Design a training and technical assistance curriculum that will strengthen the economic activities in order to increase the income employment of the clients
- Train the Village Bankers, as well as personnel from the NGOs, PROMUC and CRS in credit technology and portfolio management in order to achieve the sustainability of the credit programs
- Develop and implement seminar/workshops in order to monitor and maximize the impact and sustainability of the credit programs

**7 6 Results** CRS/PROMUC has developed a System of Permanent Training that is oriented toward supervisors and credit officers. The Training Program has implemented 17 seminars and workshops, each averaging 20 hours of training and 40 participants. The fundamental subjects have been the following

- Growth of the Program "La Chanchita" through the Model's replication,
- Total Quality and continuous improvement of the anti-poverty programs,
- Financial Sustainability of the antipoverty programs,
- Implementation of the Village Banking program,
- Financial Control,
- Re-engineering of the Village Banking program,
- Alternative scenarios for the development of the "La Chanchita" Program,
- Cash Flow,
- Code of Ethics for the Village Banking program,
- The present and future of PROMUC,
- Technical Bases for the Village Banking program,
- Sustainability, efficiency and productivity,
- Promotion and profile of the working teams,
- Basic promotion processes, external account, internal account, complementary account. Factors contributing to success and risk,
- Operational and financial aspects of the recycling of the external account,
- Integration of the subsystem reports. External Account and Complementary Account

**7 7 Objective Number Four** To strengthen the institutional capacity of the six participating NGOs and of the CRS/PROMUC personnel in management of sustainable credit programs

## 7 8 Results

- CRS has developed a Manual of Procedures for the giving loans and portfolio recovery to be used as guidelines in the "La Chanchita" Model that is being used by the affiliated NGOs. The Manuals are continually updated on the basis of newly acquired experience that are discussed in seminars and workshops.
- The decision of some of the NGOs (Arariwa and CES Solidaridad) to constitute a supervised financial institution is a demonstration of their consolidation as a sustainable microfinance entity. The other NGOs of PROMUC are much less advanced.
- The women organized into Village Banks have achieved greater access to credit and have enhanced their capacity for self management of the VBs. Males have been incorporated into some of VBs, which seems to be a sound practice as many businesses are family-owned.
- The loans are at lower rates than those collected by the usurers, but the rates are much higher than those of the commercial banks. This fact is explained by the huge imbalance between demand and supply of microcredits that characterizes these markets.
- Training in management of personnel in the Village Banks. All the NGOs of the consortium put a great emphasis on this effort.
- MSP/AASP has provided the NGOs technical assistance to diffuse the "lessons learned," and to strengthen the methodologies employed through workshops and seminars, as well as internships, among the associates of PROMUC and those in other institutions.

## 8 Geographical Area

8 1 Alternativa Slums in the Northern Cone of Lima

8 2 Arariwa Slums in the city of Cusco, and rural areas of the districts Maras, Urubamba, Lamay and Calca in the department of Cusco

8 3 Caritas-Cobis Slums in Chimbote

8 4 EDUCA Slums in the Eastern Cone of Lima and those in the city of Cusco

8 5 IDEAS Slums in the Eastern Cone of Lima

8 6 CES Solidaridad Slums and rural areas of the province of Lambayeque and of the province of Chota (department of Cajamarca)

## 9 Conclusions

9 1 CRS is fulfilling its contractual commitments, although with greater difficulties than that of the other contractors. This can be explained

- By its having initially set unrealistically optimistic program goals
- By the complexity of coordinating efforts of several implementing agencies that have different kinds of programs, different accounting practices and several sources of financing, each with their own requirements

9 2 PROMUC is not yet consolidated as an organization differentiated from CRS in its role as coordinator and supervisor of the participating NGOs. This is evidenced mainly in its difficulty of presenting consolidated financial information for the group of its affiliates, despite the fact that some of them, like ARARIWA, have adequate information

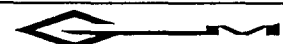
9 3 One of the first measures that PROMUC should adopt is to induce its members to carry out the accounting of their credit programs independent of their other activities, within a framework of the financial accounting system. It would thus be possible to consolidate their data and obtain relevant financial indicators for PROMUC and for each of the participating NGOs

9 4 The many years of experience that the NGOs of PROMUC have working with the local social bases of their programs is a very important asset on which they can build a system of microfinance that is efficient and has large-scale local participation. To achieve this goal, it is indispensable

- To stress a more entrepreneurial approach in the pursuit of self-sustainability
- And to adopt banking practices adapted to the world of microfinance, starting with financial accounting and monitoring of the portfolio

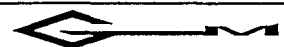
9 5 CRS/PROMUC has received an important contribution from the MSP/AASP program, particularly in the following areas

- Field visits to Central and South American microfinance programs to get acquainted with foreign practices in village banking and suitable information systems
- Improvements in the management and consolidation of financial data
- Assistance in the expansion of the program, the set up of a franchise system, and the definition of the role of the credit officers





- Field visits to other national microfinance programs and seminars and courses in different issues, like the monitoring of the portfolio, introduction of security measures, and others
- Legal advice in the issue of Value Added Tax



## II MAIN ISSUES

### A *Accounting, Information Systems and Control*

#### 1 Accounting

1 1 The accounting carried out by the NGOs for their credit programs usually is not separated from their general ledger, which includes other program activities. It is therefore impossible to use the accounting data to establish basic financial indicators.

1 2 The exception to this rule is FINCA-Peru, which can present separate financial statements for its credit program because it is a specialized credit NGO that only performs credit activities. Nonetheless, these statements are not designed according to accepted practices of financial accounting.

1 3 CARE-Peru presents additional difficulties due to the fact that its accounting system conforms to the standards of the United States, which are different from those used in Peru. Nevertheless, these difficulties will be soon overcome since CARE has decided to constitute a supervised financial entity.

#### 2 The **information systems** are very limited

2 1 Even though all the NGOs are relatively well equipped with 486 PCs generally in network, with modem, fax and electronic mail, the software packages that they are using are small, which in the best of cases, allow them to monitor the portfolio at the level of the VBs/RCFs, but not at level of the final borrowers: the members.

2 2 The accounting registers are not done simultaneously with the portfolio movements, requiring manual reconciliation that is cumbersome and does not generate the timely financial information required to support decision-making.

2 3 Despite the lack of automated systems, the data required for the monitoring and control of operations at the VBs/RCFs is collected systematically and processed by hand in all the programs, thus assisting in the self management of the Village Banks. This information is not consolidated at the level of the NGOs, however, except in the case of FINCA-Peru.

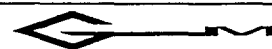
3 Systems of **internal auditing** are virtually non-existent and the external audits lack experience and procedures suitable to microcredit intermediary organizations.

## **B Profile of the Credit Officers**

- 1 FINCA-Peru recruits its credit analysts by identifying members of the Village Banks who show ability to handle finances and have university or technical-level education, not normally taking into consideration their field of training, but rather the candidate's suitability to the position
- 2 CARE-Peru and CRS/PROMUC recruit credit analysts who are university graduates in economics, accounting, or business administration, and only occasionally with other type of training
- 3 Looking at the performance of the credit officers in terms of the Average Portfolio Size per Credit Officer, no important differences are observed among the personnel of the various NGOs. It can be concluded that the suitability of the credit officer is more important than the type of professional training he or she may bring (see Table 2, Line 15). In the case of FINCA, it is necessary to point out that six of the credit officers in 1996, were part-time and therefore the Average Portfolio size per Employee is US\$ 26,700. In addition, the ratio of the number of supervisors or administrative staff to the number of credit officers is greater in FINCA than in the other NGOs
- 4 In all cases the social sensitivity and the degree of integration of the personnel into the organization are particularly relevant to the level of the officers' performance on the job
- 5 The average salary per employee is significantly lower in FINCA-Peru than in the other two NGOs, although we must consider that some of the employees are part-time. Later on we will comment on this issue (see Table 2, Line 16)
- 6 FINCA-Peru and CARE-Peru do not employ salary incentives to improve the productivity of the personnel
- 7 The NGOs in PROMUC, after having covered their operative costs, allocate 10% of the collected interest to improve the occupational conditions or to increase the wages of their credit officers. Right now it is not clear that they are using this criteria since they are not covering their operative costs

## **C Credit Technology**

- 1 Common characteristics of the three programs are the following
- 1.2 Focus on poor women. Although the NGOs of PROMUC also include males in the VBs



- 1 3 Individual loans, although employing non-conventional, group loan guarantees
- 1 4 The microcredit banking groups are designated as Village Banks in FINCA-Peru and CRS/PROMUC and as Rotating Credit Fund (RCF) organizations in CARE-Peru
- 1 5 The selection of members is made by the membership of the group
- 1 6 Free access to credit is given to the members of VBs/RCFs
- 1 7 Loans start small and grow progressively larger
- 1 8 Full, 100% recovery is assured in each loan cycle
- 1 9 Market rates of interest are charged
- 1 10 Democratic control and administrative self-sufficiency in each VB/RCF
- 1 11 Empowerment of the members and the group
- 1 12 The sharing of experiences (networking) by the members/small- and micro-business owners, discussion of issues of the Village Bank management and social issues in general, is done at the periodic meetings of the members
- 1 13 Transferral to the VBs/RCFs of
  - Part of the operating costs, including those for promotion, evaluation, follow-up and collections from the membership The VBs/RCFs do not include these costs in their cost structure, even though some consider them in their projections for future, independent operations
  - The transaction costs or opportunity cost of attending coordination and training meetings, which are too frequent from the perspective of some of the clients
  - In all cases collecting the loan payments is a group responsibility Each borrower is asked to sign an agreement and other commercial documents that are guaranteed by the entire group Occasionally, a borrower may be asked to provide real collateral, such as furniture, household appliances, or the legal titles to property

## 2 Principal differences among the three programs are the following

- 2 1 FINCA-Peru works with groups of women organized exclusively for credit purposes, while CARE-Peru and CRS-Peru/PROMUC work with groups that already are functional as grass roots organizations, such as community kitchens

2.2 In addition to credit, CARE-Peru and CRS-Peru/PROMUC provide the members with technical assistance and training in productive processes during the course of the first loan, while FINCA-Peru only provides credit. In the case of all three, training on VB/RCF credit management is permanent and is periodically evaluated.

2.3 The VBs of FINCA and CRS/PROMUC conduct their transactions principally in cash. Although the RCFs of CARE also conduct transactions in cash, it increasingly tends to use commercial banking accounts for making and receiving payments.

2.4 The VBs/RCFs "graduate," that is to say, they may opt to abandon the system, three years after receiving their first credit in the cases of FINCA-Peru and CRS-Peru/PROMUC, and 18 months afterwards in the case of CARE-Peru.

#### 2.5 Obligatory savings mechanisms

- FINCA-Peru has a savings requirement, done by the member together with the pay back of the loan. It is a variable percentage according to the size of the loans. On the first two or three cycles it demands up to 45.5% of the External Account loan. There are important differences among the VBs of Ayacucho and those of Lima.
- CRS-Peru/PROMUC, has established a 5% of the loan as savings, to be paid together as part of the pay back installments. Taking this as a financial cost, The effective annual rate of the External Account is of 79.8%.
- Besides the NGOs of PROMUC charge a commission for management of the internal account.
- CARE-Peru does not use savings mechanisms.

2.6 Voluntary savings in FINCA-Peru and the NGOs of PROMUC are also incorporated into their Village Bank Models. These funds, together with the obligatory savings are accumulated in the Internal Account and

- They are assigned to the individual accounts of each VB member, who can withdraw her savings at any moment when she decides to withdraw from the VB.
- When the members have accumulated an important amount of savings they may perceive that they are receiving loans with their own resources, and thus are tempted to abandon the VB. This explains in part the greater rate of turnover of FINCA and CRS members in comparison to CARE. In our survey showed that, after three years, about 60% of the RCF

members were founders, where as in the VBs, the percentage of founding members was only 30

- The funds accumulated in the RCF in CARE belong to the entire group, and therefore when a member withdraws from the RCF, she cannot take her savings with her. This practice discourages members' rapid withdrawal

2.7 The VBs of CRS/PROMUC and CARE can provide loans to non members under similar conditions as those for members, but at a monthly interest rate of 5% to 8%. This practice should be reviewed, because it is an infringement of current banking legislation

2.8 The credit officer integrates the Credit Committee in CRS/PROMUC, but not in the other two NGOs. This practice is inadequate, because the credit officer assumes a responsibility shared with the members, which in cases of non-compliance can cause a conflict of interest

#### 2.9 Loan amounts

- FINCA starts with loans of US\$ 50 per member, which grow progressively and can reach US\$ 1,000. A VB that has received credits for more than three years and has demonstrated efficiency in the managing of its resources can receive larger loans, up to US\$ 2,000 per member. Only 1% of its members have received loans in this amount
- MSP/AASP funds are used only for loans up to US\$ 300 per member, larger loans are financed with other sources
- The decision to finance the loans larger than US\$ 300 per member is made by a special Committee that is presided over by the Executive Director of FINCA, but the procedure for conducting the required risk analysis is not clearly established
- CARE, begins with loans of US\$ 100 per member, which progressively increase to US\$ 300. For larger loans, the clients are referred to other credit programs of CARE
- CRS/PROMUC begins with loans of US\$ 100 and progressively increases to greater amounts, taking into account that the loan average of the VB should not exceed US\$ 375 per member. However, it provides credits up to US\$ 600 through the so-called Complementary Account, and on exceptional occasions, it can reach as high as US\$ 1,000 per member

#### 2.10 Policies related to the "graduated" groups

- FINCA-Peru does not have a policy defined in this respect, and therefore tends to lose valuable clientele to other loan intermediaries. However,

this trend is being reversed as a result of its financing individual loans in greater amounts, using savings of the VBs and other resources

- CARE-Peru retains the groups or transfers the clients to its other credit programs
- CRS-Peru/PROMUC has a policy of graduation that can be defined in two levels

⇒ A first level, inside the NGOs, which solve the problem in different forms ARARIWA, Alternativa, and CES Solidaridad use the Complementary Account and also have other credit programs where the members who need greater loan amounts are referred. The other NGOs of PROMUC cannot attend this type of demand

⇒ A second level consists in the promotion of other credit instruments, such as the programs of solidarity groups or to certifications to accede to other financial intermediaries

- However, none of the NGOs have faced the real magnitude of the question of the "graduation" of their clientele

2.11 The following table presents data concerning the loans of each NGO to its VB/RCF according to the currency used, the terms of the loans, and the interest rates charged. It must be pointed out that, although some members of the FINCA VBs can receive loans up to US\$ 2,000 not all of the members receive such amounts. The data in the table is equally limited in the case of CRS.

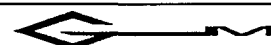
LOANS TO VILLAGE BANKS/ROTATING CREDIT FUNDS			
	FINCA	CARE	CRS
Currency	US \$	S/	US \$
Amount			
1st loan equiv. US\$ thousands	2.0	2.0	2.0
Follow growing up to US\$ thousands	40.0	6.0	20.0
Term	16 weeks	18 months	16 weeks
Period	No	0 - 15 months	No
Effective annual interest rate %	42.6	51.0	67.3

- 2 12 The following table presents data concerning the loans of the VB/RCFs to their members according to the currency used, the terms of the loans, and the interest rates charged

LOANS OF VILLAGE BANKS \ ROTATING FUNDS TO THE MEMBERS			
	FINCA	CARE	CRS
Currency	US \$	S/	US \$
Amount			
1st loan equivalent US\$thousands	50	100	100
Folow growing up to US\$thousands	2 000	300	325
Term	4-16 weeks	1-4 months	4-16 weeks
Period	No	No	No
Effective annual interest rate %	43 1 1/	92 2	73 3
1/ When the loans are financed with the VB the interest rate is 27 7%			

#### **D Impact**

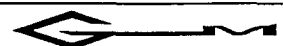
- 1 We have taken a random sample of the VB and RCF clients, who have been interviewed in specially designed formats (see Methodological Annex) A processing of the information renders the following conclusions
- 1 1 80% of the clients believe that credit has permitted the improvement of their economic activities and the betterment of their standard of living, as measured by levels of consumption
- 1 2 The average monthly family income of the clients ranges between US\$ 200 and US\$ 300, that is to say they are families in poverty, but not in extreme poverty According to studies of costs of living in Peru, a family with five members, 1 7 of whom are income earners, is considered poor if its monthly income is less than US\$ 500 and extremely poor when its monthly income is less than US\$ 100
- 1 3 Practically 100% of the clients live in their own houses (not always with all the basic services, and frequently without legal ownership titles) Concerning the clients of rural areas nearly all of them are owners of a small plot of land (1-3 hectares), where they can cultivate grains and staples only during the rainy season Furthermore, they own some livestock, (cows,





sheep, alpacas and/or llamas) and are entitled to the use of pasture lands in communal property

- 1 4 These statistics are understandable since, of the 15 provinces where the three NGOs operate, only two (Huanta and Lamay) are considered extremely poor, seven are poor and six are not considered among Peru's poverty-stricken provinces (see Table 1, Statistical Annex)
- 1 5 It is also relevant to indicate the large differences in the size of the populations in the different project areas. There are some provinces of several hundred thousand inhabitants and others, such as Maras and Lamay, that are sparsely populated and thus the cost-per-client to reach them is too high. These areas could be attended from nearby towns, like Urubamba and Calca, where the inhabitants of the small districts travel frequently to trade their products
- 1 6 The principal synergy of participating in the Village Banks is the recognition by the clients of savings as a capitalization tool, while the women members of the VBs experience an increased level of self-esteem and they assume a more prominent role in the family and in the local community
- 1 7 The surplus generated by the greater availability of working capital is used primarily to increase productive activities, and only secondarily, to acquire household goods or to make improvements in their living quarters
- 1 8 A high proportion (70%) of the polled members assert their not having knowledge of alternative sources of credit, which implies that the high interest rates will tend to be reduced when there is an increase in competition from other micro-finance institutions
- 1 9 Delinquency of the portfolio tends to increase with the size of the loans, and is independent of the client's level of savings. In order to offset this trend, some NGOs, such as CARE, have implemented the practice of refinancing or rescheduling payments at the RCF level
- 1 10 The survey shows that 60% of the members in FINCA-Peru and PROMUC leave the group, while this is the case in 30% of those in CARE-Peru. This loss is compensated with new members, therefore at aggregate level rotation does not generate any negative effects. As the NGOs lack centrally processed information the magnitude of member turnover it is not adequately measured
- 1 11 There is a high degree of cohesion of the members around their organization, which has been reinforced with the credit activities



- The group undertakes additional voluntary activities to collect funds and to meet unfulfilled obligations of some of their members
  - Some VBs have spontaneously created mutual assistance mechanisms
  - In other VBs, the profits of the VB/RCF are used to buy fixed assets or property for the organization
- 1 12 An important portion of the clients involve other members of their family in the economic activities that result from the loans received
- 1 13 The greater participation of males in the PROMUC VBs creates a different set of dynamics than the gender-specific approach of the FINCA and CARE programs
- 1 14 Sixty percent of the polled members request training in productive and commercial processes, although they say they are not willing to pay for these services
- 1 15 There is sufficient information at local offices of each NGO on the socio-economic situations of clients prior to receiving their first loan, and their situations three years later, after having receiving several loans This information has not yet been processed, which is a task that we consider to be necessary
- 1 16 CRS/PROMUC has a data base with socio-economic information of all their member clients for 1994 They need to identify the clients that have continued receiving loans up to 1996, conduct a new socio-economic survey, process the information and analyze it CRS-Peru informs us that they have designed a program that contains these goals

## ***E Sustainability***

- 1 Despite the serious limitations indicated in the section concerning Accounting and Information Systems, we have constructed four tables named "Test of Financial Soundness" for FINCA-Peru, CARE-Peru and CRS-Peru/PROMUC, that are based on the financial information presented by the NGOs These are presented in Tables 2, 3, 4 and 5 of the Statistical Annex Due to the lack of information, we are unable to present these same data for each of the six NGOs in PROMUC
- 2 Selecting the relevant information from those tables to estimate the principal Financial Indicators for each NGO and their VBs/RCFs, we find that
- 2 1 The amount of Income per Average Portfolio improves significantly in the three cases during the period analyzed

2.2 The Operating Costs per Average Portfolio diminishes significantly, with the exception of FINCA-Peru, which increased slightly in 1996 in relation to 1995

2.3 The ratio of Profits per Average Portfolio also increases in the course of the period, and in 1996 is positive for FINCA and CARE, that is to say, these NGOs and their Village Banking organizations have already reached the break-even point

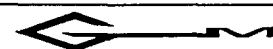
2.4 PROMUC still shows negative results in 1996, although they have improved substantially over the previous year. These results should be taken only as a reference, because

- The information presented by CRS-Peru has several inconsistencies that we have not been able to explain satisfactorily
- CRS-Peru has not given us detailed information for each of the NGOs

2.5 Productivity, as measured by the relationship of Average Portfolio per Employee improves consistently, with FINCA-Peru being the exception, between 1995 and 1996, for the reasons we explain below. The greatest productivity corresponds to CARE-Peru, with US\$ 37,300

SUSTAINABILITY CONSOLIDATED FINANCIAL INDICATORS OF THE NGOs AND THEIR VB/RCF ORGANIZATIONS 1994-1996 (in %)							
	FINCA			CARE		CRS/PROMUC	
	1994	1995	1996	1995	1996	1995	1996
1 Financial Income (1/) /Average Portfolio %	29.2	31.0	34.1	48.2	56.0	59.6	60.3
2 Operational costs(1/) /Average Portfolio %	48.4	27.3	28.3	99.9	40.2	114.1	67.3
3 Profits/Average Portfolio %	19.3	3.8	5.8	51.7	15.8	54.5	6.9
4 Average Portfolio/Nº of employees (US\$ 000)	13.3	27.5	25.1	13.7	37.3	20.3	34.8
1/ Include other income							
2/ Include provisions for debts							

3 Upon analyzing Table 2 of the Statistical Annex, and assuming that each NGO and its VB/RCF organizations constitute a single entity, we can obtain the following conclusions



- 3 1 The ratio of Profits/Equity of FINCA and its VBs is 10.1% (see Line 12 of Table 2), which is modest but comparable to that of Peru's Cajas Rurales de Credito for the same year
- 3 2 CARE and its RCFs present a profitability of 22.0%, a ratio that is similar to that obtained by most of the Peruvian Cajas Municipales de Ahorro y Credito
- 3 3 CRS/PROMUC and their Village Banks have a net loss of 6.9%, a result that can be attributed primarily to the ongoing low level of productivity of its system and the relatively high labor costs
- 3 4 In 1996, the Income from Interest and Commissions collected by the NGOs was 33.0% of the average portfolio, in the case of FINCA-Peru, 52.8% in the case of CARE-Peru, and 60.1% in the case of PROMUC (Table 2, percentage obtained is Line 3 divided by Line 1). Comparing these percentages with the average effective annual interest rates charged to member-borrowers (weighted according to the costs of different accounts), we can conclude the following
- In FINCA the annual effective rate of interest charged clients is 35.0%. The lower percentage of income from interest and commissions in 1996 (33.0%) can be explained by the default of approximately 2.0% of the VBs with the NGO
  - At this point, we need to specify that FINCA charges each VB a 42.5% effective annual interest rate, and its VBs charge a 27.05% effective annual interest rate when they lend to their member clients, using their own resources. Weighting these rates with the structure of the financing of the average portfolio, we obtain the 35.0% mentioned above
  - In CARE the effective annual rate of interest charged to the clients is 51.0%, the greater income by this item (52.8%) can be explained by
    - ⇒ The lack of default in the portfolio, and
    - ⇒ A larger income from fines, commissions and interest on loans to third parties at higher interest rates
  - In PROMUC the annual effective rate of interest charged to the member clients is 61.4%, 1.3% greater than the income (60.1%), implying a default of only 1.3%
- 3 5 From a point of view of financial sustainability, the key statistic is the amount of the average portfolio per employee. The number of organizations that a Credit Officer supervises does not matter, nor does the ratio of Average Portfolio per Credit Officer. This is because an institution may have a surplus of supervisors, but nonetheless its credit officers may have a

portfolio load similar to that of another institution that has less supervisors, but the sustainability of the later is greater than that of the previous

3 6 Productivity should be measured, therefore, by the ratio between Average Portfolio size per Employee. Already we have indicated that the Productivity is higher in CARE (US\$ 37,300 per employee) than in the other two NGOs. The amount for PROMUC is US\$ 34,800, while for FINCA, it is only US\$ 25,100.

3 7 The relatively high cost-per-employee of CARE (US\$ 8,100 - see Table 2, Line 16) relative to the other two NGOs is compensated for by the greater productivity of its personnel and the greater financial margins that it achieves.

3 8 The relatively low cost of labor per employee in FINCA presents the risk that some of the more qualified personnel will leave to other micro-financial institutions that can offer them better working conditions.

3 9 With respect to the relationship between the level of the VBs/RCFs' savings and their level of loans (Table 2, Line 11/Line 2 2), the following can be concluded:

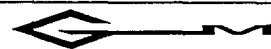
- In the program of PROMUC, the entirety of the savings of the VBs are lent out, similarly in CARE, the entirety of the equity of the RCFs, are lent out.
- FINCA lends only 69.0% of the savings, the rest (US\$ 221,000) is maintained in custody in a savings account in a commercial bank where it earns only 6% annual interest. This situation in 1996 contrasts with that of 1994, when FINCA lent 100% of its savings. This leads to the following conclusions:

⇒ The collection of savings is a completely different matter than the transformation of savings into investment. This situation also exists in the commercial banks in Ayacucho, which lend only 42% of the deposits collected. 58% of deposits is transferred elsewhere (see Table 6, Statistical Annex).

⇒ FINCA should transfer these resources to their VBs in Lima where the demand for small credits is much greater than the current supply. This solution would be favorable for FINCA as well as for the Village Banks.

⇒ FINCA, in conjunction with other development promotion organizations should contribute to the generation of investment opportunities in Ayacucho, to enable the savings collected in the region to be invested locally.

- It has not been possible to accurately calculate the average loan size per member-client due to a lack of monthly financial information. An



approximation can be made, however, using the balance sheets at the end of 1996, showing that

- ⇒ The average size of the loans by the Village Banks or Rotating Credit Funds is US\$ 4,200 in the NGOs of PROMUC, US\$ 2,900 in FINCA and only US\$ 1,600 in CARE (see Table 2, Line 18). There is no clear explanation of these results inasmuch as the number of member-clients per VB/RCF in FINCA is 24, in CARE, 19, and in PROMUC, 22.
- ⇒ The average loan size per member-client varies between US\$ 295.1 in FINCA to US\$ 196.1 in CARE, being US\$ 231.9 in PROMUC. One must take into account that these averages correspond to the loans financed with all the resources available to FINCA and its VBs/RCFs, not solely those financed by MSP/AASP.

4 If we examine each institution separately (i.e., the NGOs on one hand and the VBs/RCFs on the other -- see Table 2.1, Statistical Annex) we find that

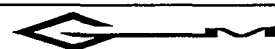
4.1 FINCA-Peru, alone, shows a loss of 16.5% of its equity

4.2 The VBs of FINCA-Peru, on the contrary, present a relatively high, 17.3% profitability. Nevertheless, as we have indicated previously, a high proportion of their resources are not converted to loans. If all savings of the VBs were loaned to member-clients, their profitability would rise to 27.05%, a level equivalent to the effective annual interest rate that the Village Banks charge for their loans to their member-clients.

4.3 To reach the break-even point, without subsidies, FINCA-Peru must adopt measures oriented towards

- Reducing to zero the default that the VBs have with the NGO
- Loaning out all the resources captured in the savings of the VBs
- Negotiating an agreement with the Village Banks to receive 50% of the interest collected by the loans financed with their resources in remuneration for the operational costs that are incurred by FINCA-Peru
- Improving its accounting methods and information system in order to have access to timely and reliable financial information
- If FINCA-Peru wishes to increase the wages of its personnel to the levels of the NGOs of PROMUC, its productivity must be increased to an average portfolio of US\$ 32,000 per employee

4.4 CARE-Peru, independent of the RCFs, shows a loss in 1996 of 19.5% of its patrimony, while the RCFs show a 38.0% rate of profitability



4 5 To reach the break-even point, CARE-Peru must

- Negotiate with the RCFs that 50% of the interest received from the loans financed with the savings of the member-clients should be transferred to finance the operational costs of CARE-Peru
- Improve their accounting methods and information system in order to have timely and reliable financial information
- Although CARE-Peru is about to constitute the EDPYME Edyficar on the foundation of its credit programs, it must implement appropriate measures to reach the break-even point

4 6 The NGOs of PROMUC lose 12.8% of their equity, while their Village Banks show a profitability of 47.9%. To amend this situation and to achieve the break-even point, the NGOs must undertake the following measures

- Increase their productivity to at least an average portfolio of US\$ 32,000 per employee
- Charge the VBs a commission of 50% of the interest received from the loans financed with the savings of the client-members
- Improve their accounting methods and information system in order to have timely and reliable financial information

5 In summary, the system operates to the detriment of the NGOs and to the benefit of the VBs/RCFs. This situation demands permanent subsidies for the NGOs, which would soon become unviable without them. To overcome this problem, several specific measures have been proposed for each case, with their common feature being that the NGOs should charge a commission to the VBs/RCFs to cover the supervision and other operational costs

6 An alternative to the previous proposal is to persuade the VBs/RCFs to capitalize their savings in the NGO. In this way, the member-clients would become stock holders in the NGO

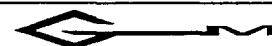
7 Table 3 of the Statistical Annex displays financial information for FINCA-Peru during the period 1994-1996, and in Tables 4 and 5 information for CARE-Peru and PROMUC for the years 1995-1996. Based on that information, Table 5.1 presents the principal financial indicators for each NGO, and its evolution during the period under examination. This information leads to the following conclusions

7.1 The Financial Income and Commissions per Average Portfolio show an important improvement in all three cases, implying a meaningful reduction of the default

- In the case of FINCA in 1994 the implicit default (i.e., the difference between the interest rate charged (34.3% on average), and that collected (26.5%) was 7.8%. This default was reduced to 3.5% in 1995 (average interest rate charged, 33.6%, average rate collected, 30.1%), and to 0.7% in 1996 (average interest rate charged, 33.8%, collected, 33.1%)
- In CARE, the data shows that while in 1995, it had a default of 3.7% (difference between the 51.0% interest rate charged to RCFs and that collected of 47.7%), in 1996, no default was registered
- In PROMUC, in 1995 and 1996 the interest and commissions collected prove that virtually no portfolio in default was presented

7.2 The ratios between Operational Costs and Average Portfolio for the three implementing entities show that

- In FINCA-Peru this indicator improved substantially between 1994 and 1995. In 1994, placing a loan of one dollar cost US\$ 0.475, in 1995 the cost decreased to US\$ 0.264
- In 1996 a slight deterioration is observed, reflecting an increase in the number of personnel from 24 to 32 persons without a proportional increase in the portfolio size
- Although the productivity increased significantly between 1994 and 1995, 1996 witnessed a reduction of the average portfolio per employee from US\$ 27,500 to US\$ 25,100
- In CARE-Peru the Operational Cost Indicators have lowered from a high 99.0% (a loan of US\$ 1.00 cost US\$ 0.99) to a still-high but more manageable level of 39.2%, a descent that has been achieved without increasing the number of personnel. In this way, the Average Portfolio per Employee increased from US\$ 13,700 to US\$ 37,300 from 1995 to 1996
- In the NGOs of PROMUC we can also observe important improvements though the operational costs remain high, at 66.8% of the loan portfolio. Despite the fact that they have incorporated 10 new employees, the average portfolio has grown at a higher rate than the growth of the number of personnel, thus resulting in a significant improvement in the productivity from US\$ 20,300 to US\$ 34,800 of Average Portfolio per Employee. These levels remain insufficient, nonetheless, to achieve the break-even point





7.3 The Profits/Equity Index (Line 13 of Tables 3, 4 and 5) shows improvements in all three cases, with some interesting differences

- FINCA shows a slight but persistent improvement, going from a loss of 8.4% in 1994 to a profit of 5.4% in 1995 and 10.1% in 1996
- CARE shows a very important improvement, going from a loss of 31.7% in 1995 to a profit of 22% in 1996
- The NGOs of PROMUC also show improvements, but their income sheet is still in the red

8 The VB Loans Financed with their own resources in relation to the VBs savings, shows the following features

- CARE and PROMUC loan 100% of the savings captured from their client-members
- In FINCA, the percentage deteriorates during the period from 100.0% in 1994 to 76.9% in 1995 and 69.0% in 1996. This trend is worrisome, and demands urgent measures to be reversed

9 For a more detailed analysis, Table 7 of the Statistical Annex presents information for the VBs and RCFs for three years, given that

9.1 During the first year the organizations practically worked with the funds lent by the NGO, and by doing so they incur in important financial costs

9.2 During the second year, they had accumulated their own funds in an amount equivalent to 50% of their loans (the rest was financed with funds provided by the NGO), and consequently their financial costs were reduced in half

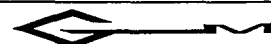
9.3 In the third year, the VBs and RCFs could finance 100% of their loans with their own funds, therefore they don't have financial costs

9.4 It is assumed that they have no operative costs, since management is conducted by some of the member-clients who do not earn salaries, and the supervision and technical support is assumed by the NGO

10 The analysis of this information confirms that

10.1 The system operates as a mechanism to transfer resources from the NGOs to the Village Banks and Rotating Credit Funds, through the hidden subsidy of their operating costs

10.2 The NGOs systematically lose their equity, and to subsist they require permanent donations, without even considering their financial costs



Because of their small size, the Village Banks cannot work as financial intermediaries independent of the NGOs

10 3 This problem must be solved by asking the VBs and RCFs to share the financing or the operating costs of the NGO in proportion to the proportion of the portfolio of each one of the parties

11 In Tables 8 and 9 of the Statistical Annex, Stability Tests for the NGOs and VBs/RCFs together are conducted in two scenarios

11 1 Scenario A, or Pessimistic, supposes a reduction of 20% in the financial margin, maintaining the other variables unchanged, and

11 2 Scenario B, or Optimistic, supposes an increase of 20% in the productivity of the system, maintaining the other variables unchanged

11 3 The results show a high degree of sensitivity to the interest rate as well as to productivity, as we can see below

#### Alternative Scenarios

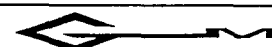
Profits/ Average Portfolio %	Current	Pessimistic	Optimistic
FINCA and VBs	5 8	2 3	9 9
CARE and RCFs	15 8	5 2	27 7
PROMUC and VBs	- 6 9	- 18 9	16 1

11 4 Given the macroeconomic trends and the growing competition in the field of micro-finance, it is very probable that the financial margins will show a declining trend, so that this panorama is not far from reality

11 5 These results show the urgency of incorporating measures that will rapidly increase the productivity of the micro-finance intermediaries

12 Taking into account the data obtained in this evaluation and the data from the risk analysis that MAXIMIXE has performed for 35 micro-finance intermediaries in Peru for 1996, we consider that the financial goals that should be set for the evaluated NGOs are the following

Average Portfolio	<u>100 0 %</u>	
Interest Income and Commissions	41 0	
Financial Costs	(-) <u>0 0</u>	
Financial Margin	41 0	
Operating Costs	(-) <u>25 0</u>	
Provisions	(-) <u>2 0</u>	
Profits	14 0	



- 13 Considering that the interest rate is a variable that can be modified according to each specific market, and that some NGOs can leverage financial resources and therefore incur in financial costs, an alternative way of presenting the previous indicators is the following

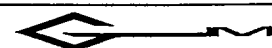
Net Operating income *	<u>100 0 %</u>
Operating Costs	61 0
Provisions	5 0
Operating Margin	34 0

- \* Net Operating Income equals Interest and Commissions + Other Operating Income - Financial Costs

- 14 In the measure that they can charge a higher interest rate and they do not incur additional financial costs, their margins will be higher. In no case should their Operating Costs exceed 25% of their Average Portfolio, or 61% of their Net Income

#### ***F High-Speed Replication of the System***

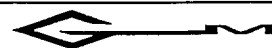
- 1 The NGOs thorough knowledge of the social and economic conditions in their geographical areas of operations, and the existence of important, well-organized social groups within each community, constitutes an extremely valuable asset to establish a mass-based micro-finance system
  - 2 This comparative advantage will only be converted into a competitive advantage if the NGOs adopt a clear financial approach in their micro-finance activities
  - 3 The experience acquired in this Experimental Stage confirms the findings in other countries in that the populations in situations of poverty have a capacity to save, and that under certain conditions these savings can be mobilized
  - 4 The mobilization of savings does not necessarily imply its transformation into loans as the experience in Ayacucho indicates. In other words, the availability of funds to finance credits does not automatically generate business opportunities, but rather when these opportunities exist, an effective demand for credit is generated
  - 5 The rapid replication of small loans to alleviate poverty requires a gathering of the experience acquired and the design of an integrated strategy that will induce financial intermediaries to
- 5.1 Abandon the paternalistic practices that can still be observed in several of the participating NGOs



- 5 2 Adopt a clear entrepreneurial approach without forgetting the solidarity and equity criteria that should constitute the ethical basis of all the micro-finance intermediaries so that the costs and benefits are shared equitably
- 5 3 Establish prudential but precise targets for when the programs will be self-sustainable
- 5 4 Adopt procedures and practices of a financial institution specialized in micro-finance that is supervised, or capable of being supervised by competent authorities
- 5 5 It is crucial for this endeavor to adopt the latest technology, adapted to the peculiarities of each market, in the fields of accounting as well as in information systems so that it will be possible to establish real Management Information Systems (MIS) in order to have relevant and timely information for decision making and to satisfy the requirements of the supervisory entity

### ***G The Role of MSP***

- 1 An overall appraisal permits us to assert that MSP/AASP as well as the counterparts have complied with the obligations derived from their contractual commitments
- 2 However, we must mention that the mentioned projects were designed in a totally different environment from the present In effect
  - 2 1 At an international level, there was not yet a consensus about the importance of micro-finance as a tool against poverty
  - 2 2 At the national level, in 1993 it was still not clear that hyperinflation had been controlled, that Peru would enter a path of steady growth and that subversion and terrorism had been mortally wounded
- 3 Today the situation has changed radically, and can be characterized as follows
  - 3 1 There is an international consensus on the importance of micro-finance as the most effective tool to fight poverty, which can be synthesized in the sentence of Mrs Clinton at the Microcredit Summit "Microfinance constitutes a Macro-idea that will mobilize the world to overcome poverty "
  - 3 2 In Peru, subversion and terrorism are virtually defeated, the economy is stabilized and has entered a steady expansion process, and the banking regulations have been updated including adequate rules for micro-financing



3 3 These developments constitute a new frame of reference that it is indispensable to consider for the design of the international technical cooperation in the future

4 The analysis of the micro-finance market performed by MAXIMIXE and other specialists finds that for 1996 the Potential Demand in Peru for micro-credit was in the order of the following magnitudes

(Millions of US \$)

<u>Total Demand</u>	<u>4,500</u>
Segment A Credits of more than US\$ 3 thousand	450
Segment B Credits of US\$ 500 to US\$ 3 thousand	1,500
Segment C Credits up to US\$ 500	2,700

5 The Credit Supply to this market does not reach US\$ 250 million, limited largely to segments A and B of the population

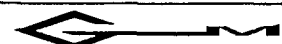
5 1 Segment A is the best served, by commercial banks and some of the Cajas Municipales and Cajas Rurales, with an estimated 20-30% of the demand being met

5 2 Segment B is served in a much smaller percentage of its demand than segment A, in an estimated amount of 3 % to 5 % The principal credit agencies for this group are the larger NGOs, and the majority of Cajas Municipales and Cajas Rurales

5 3 Segment C is the least attended to, due to the difficulty of reaching this market and the scant knowledge of its characteristics It is served by many NGOs that, for the most part, operate on a small scale and with a heavy tendency to use a traditional approach that depends on the maintenance of a source of financial assistance

6 The results obtained with the projects that we have evaluated demonstrates that it is feasible to establish micro-finance institutions for Segment C, provided that it is possible to "marry" the profound knowledge of the NGOs about the community social organizations with an adequate financial approach and banking technology that has been adapted to the characteristics of the specific markets

7 Consequently there exists a wide field to cover and it is convenient to think in a more relevant role for MSP in the near future



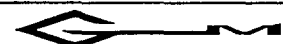
### III CONCLUSIONS AND RECOMMENDATIONS

#### A Conclusions

- 1 The Village Banking Model, with the variations that each NGO has incorporated into it, demonstrates that
  - 1 1 It is a very useful instrument to reach poor populations with small loans at reasonable costs, since upon grouping them it is possible to transfer the transaction costs to the group as a whole
  - 1 2 It also constitutes an efficient tool to mobilize local financial resources and to develop savings habits among poor populations
  - 1 3 When the VB members' savings reaches a certain level, there is a tendency for them to quit the group, particularly after the first year of receiving loans
  - 1 4 Limits on the size of the loans made to the members discourages the permanency in the group of those members who require larger loans
  - 1 5 Even though it generates a dynamic that offers high incentives for savings, the benefits remain only at the VBs/RCFs, since they are paying their members for their savings an interest rate that is equal to the interest rate they collect from the loans of the Internal Account. Meanwhile, the operating costs of the VBs/RCFs are practically non-existent, because the members of the Credit Committee are not paid and the NGO assumes the costs of supervision and technical assistance

This dynamic works against the NGOs. This is evidenced by the fact that they cannot achieve their break-even point, on the contrary, they tend to lose equity.

- 2 To have a high speed replication of the system it is necessary
  - 2 1 That the microcredit intermediaries adopt the measures needed to conform with the current banking legislation, which explicitly forbids unsupervised entities to be devoted "to collect or to receive in frequent manner money from third parties in deposits, mutual funds or any other form, and to put regularly such resources in the form of credits, investments or of funds, under any contractual modality" (Law N° 26702, Article 11°, clause 1)
  - 2 2 On this point, it must be noted that recently the SUNAT (State Tax Collection Agency) has rejected the request for tax exemption by an NGO that finances credits, arguing that any entity that performs this type of activity must pay taxes, and must have been authorized by the SBS (government Insurance and Banking Superintendency). This precedent is a



sign that the SBS, in fulfillment of its role, may at any moment close an entity that systematically is giving credits without the corresponding authorization

- 2 3 To promote, within the framework of the banking legislation, the development of specialized microfinance institutions that can provide savings and credit services simultaneously
- 2 4 To incorporate mechanisms that assure the standardization of the accounting procedures in the framework of the General Ledger applied to Financial Institutions, approved by the SBS
- 2 5 To adopt a Management Information System (MIS) that will allow the simultaneous monitoring of the portfolio and the accounting registration, and that will process the information to produce timely reports that will be useful for management decision making
- 2 6 To introduce automatic measures that will contribute to build up productivity of the microfinance institutions in order to achieve sustainable growth in reasonable amount of time Among these measures, we would emphasize the introduction of salary incentives according to the magnitude and quality of the portfolio

## ***B Recommendations***

- 1 The NGOs should be prepared to incorporate modifications into their daily practices that will permit them to fully utilize the lessons learned from the experiences of other institutions of the APPLE program The example of CARE-Peru shows that the modifications incorporated into their credit technology facilitated greater benefits than was the case of the others NGOs
- 2 All the NGOs should be prepared to comply with the obligations derived from the state banking supervision, though temporarily, they may decide not to convert to a formal supervised institution
- 3 The fulfillment of the previous recommendation demands the modification of accounting practices and the incorporation of financial information systems that will permit the simultaneous monitoring of the portfolio and the accounting registration, thus making it possible to have daily financial reports
- 4 These information systems are expensive, and require adequate hardware, both of which are difficult to obtain for small NGOs From this emerges a decisive role that the international cooperation agencies should perform

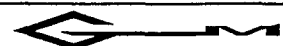
5 The consultants consider that, on the basis of MSP experience, USAID could help to promote the development of a Microfinance System in Peru that consists of the following elements

5 1 A second-tier institution that will provide to first-tier institutions specialized in microfinance with the following

- Seed capital, in the form of equity, underwriting, or grants
- Leveraged funds
- Technical Assistance
- Training in management of microfinance
- Financing for conducting research of microfinance markets and the development of credit technology oriented toward different segments of the market

5 2 First-tier entities specialized in microfinance that

- Provide loans to poor populations in the US\$ 50-to-3,000 range, at market rates, with differentiated credit technologies that demonstrate their capacity to reach the different segments of the market at reasonable costs
- Reach their break-even point in a period of two years or less, and
- Are capable of mobilizing significant amounts of local funds in support to microfinance activities





## V ANNEXES

## A STATISCAL ANNEX

Chart No 1

GEOGRAPHICAL AREAS, STANDAR OF LIVING AND 1996			
	Province	Standards of living	Estimated population 12 31 96
FINCA	Huamanga	Poor	180 505
	Huanta	Very poor	66,549
	Villa el Salvador 1/	Not poor	277,000
CARE	Canto Grande 1/ (*)	Not poor	635,000
	San Martin de Porres 1/	Not poor	414 000
	San Juan de Lurigancho 1/	Not poor	635 000
	Chimbote 2/	Not poor	233,658
	Trujillo	Not poor	658,841
	Piura	Poor	537,618
	Juliaca	Not poor	172 672
	Puno	Poor	208,120
	Cajamarca	Poor	251 061
CRS / PROMUC			
Altrenativa	Comas 1/	Not poor	440 000
Arariwa	Maras 3/	Poor	7,966
	Lamay 4/	Very poor	5,445
Caritas	Chimbote 2/	Not poor	233 658
Educa	San Juan de Lurigancho 1/	Not poor	635,000
	Cusco	Not poor	291,290
Ideas	Ate 1/	Not poor	290 000
Solidaridad	Chiclayo	Not poor	679,685
	Lambayeque	Poor	228 706
	Chota	Poor	173,325
*District of San Juan de Lurigancho 1/Province of Lima, 2/ Province of Santa, 3/ Province of Urubamba, 4/ Province of Calca			

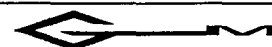


Chart No 2

FINCA, CARE and PROMUC Test of Consistency 1996 (In US\$thousands)			
	FINCA	CARE	PROMUC
Indicators	In US\$	In US\$	In US\$
<b>1 Average portfolio</b>	802	299	400
1 1 NGO Resources	348	147	324
1 2 VB / RCF resources	455	152	75
<b>2 Current portfolio</b>	861	413	590
2 1 NGO resources	371	178	474
2 2 VB / RCF resources	491	234	115
<b>3 Financial income and fees</b>	265	158	240
3 1 NGO financial income	142	69	185
3 2 VB / RCF financial income	287	89	55
<b>4 Financial expenses</b>	0	0	0 0
4 1 NGO resources financial expenses	0	0	0 0
4 2 VB / RCF resources financial expenses	164	0	0
<b>5 Financial spread</b>	265	158	240
5 1 NGO financial spread	142	69	185
5 2 VB / RCF financial spread	123	89	55
<b>6 Other NGO income</b>	8 0	9 5	1 1
<b>7 NGO operational expenses</b>	220	117	262
7 1 Staff salaries	140	65	146
7 2 General expenses	79	52	117
<b>8 Provis Depreciation and Amortiz. NGO 1/</b>	7	3	6 5
<b>9 Profit</b>	47	47	-28
9 1 NGO profit	-76	-41 8	-83
9 2 VB / RCF profit	123	89	55
<b>10 Equity</b>	461	214	645
10 1 NGO equity	386	214	511
10 2 Grants to NGOs	76	0	134
<b>11 VB / RCF savings</b>	712	234	115
<b>12 Net profit / Equity % (9/10)</b>	10 1	22 0	-4 3
<b>13 Net profit / Average portfolio % (9/1)</b>	5 8	15 8	-6 9
14 Number of employees	32	8	12
15 Average portfolio / employees (in US\$ thousands)	25 1	37 3	34 8
16 Salary / Employee (in US\$ thousands)	4 4	8 1	12 7
17 Number of VB	130	112	112
18 Average loan / VB (in US\$ thousands) (2 1/16)	2 9	1 6	4 2
19 Number of members of village banks	2 918	2 106	2 542
20 Average loan / member of village bank (\$) (2/18)	295 2	195 9	231 9
1/ 2% of the portfolio financed by the NGO			
Source Charts 2 3 and 4			
Preparation MAXIMIXE			

Chart N° 2 1

Gross Profit of NGOs and their Organizations 1996 (in US\$ thousands)							
	Financial Spread	Other income	Operational Expenses	Provisions	Profit	Equity	Profit/Equity (%)
FINCA	142.4	8.0	219.8	7.0	-76.3	461.4	-16.5
VB	123.0	0.0	0.0	0.0	123.0	711.7	17.3
CARE	68.8	9.5	117.1	2.9	41.8	214.0	19.5
RCF	88.9	0.0	0.0	0.0	88.9	234.2	38.0
PROMUC	184.9	1.1	262.4	6.5	-82.8	645.4	12.8
VB	55.2	0.0	0.0	0.0	55.2	115.2	47.9
Source: Chart 2 Preparation: MAXIMIXE							

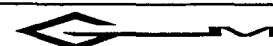


Chart N° 3

ONG FINCA Test of Consistency (in US\$ thousands)			
	1994	1995	1996
Indicators	US\$000	US\$000	US\$000
<b>1 Average Portfolio</b>	225 4	659 3	802 1
1 1 NGO resources	105 1	277 2	347 5
1 2 VB resources	120 3	382 2	454 6
<b>2 Current Portfolio</b>	430 6	822 1	861 4
2 1 NGO resources	223 3	403 7	370 6
2 2 VB resources	207 4	418 4	490 8
<b>Financial income and fees</b>	59 7	198 2	265 4
3 1 NGO Financial income	27 2	94 9	142 4
3 2 VB / RCF financial income	32 5	103 4	123 0
<b>4 Financial expenses</b>	0 0	0 0	0 0
4 1 NGO resources - financial expenses	0 0	0 0	0 0
4 2 VB/RCF resources - financial expenses	0 0	0 0	0 0
<b>5 Financial spread</b>	59 7	198 2	265 4
5 1 NGO financial spread	27 2	94 9	142 4
5 2 VB / RCF financial spread	32 5	103 4	123 0
<b>6 Other NGO income</b>	6 0	6 5	8 0
<b>7 NGO operational expenses</b>	107 0	174 2	219 8
7 1 Staff salaries	54 6	105 3	140 4
7 2 General expenses	52 4	68 9	79 5
<b>8 Provis Depreciation and Amortiz BGO 1/</b>	2 1	5 5	7 0
<b>9 Profit</b>	-43 4	24 9	46 6
9 1 NGO profit	-75 9	78 4	-76 3
9 2 VB / RCF profit	32 5	103 4	123 0
<b>10 Equity</b>	516 3	461 9	461 4
10 1 NGO equity	350 2	437 9	385 5
10 2 Grants to NGO	166 1	24 0	75 9
<b>11 VB/RCF savings</b>	207 4	544 1	711 7
<b>12 Net profit / Equity % (9/10)</b>	8 4	5 4	10 1
<b>13 Net profit / Average portfolio % (9/1)</b>	-19 3	3 8	5 8
14 Number of employees	17	24	32
15 Average portfolio / employees (in US\$ thousands)	13 3	27 5	25 1
16 Salary / Employee (in US\$ thousands)	3 2	4 4	4 4
17 Number of VB	60	111	130
18 Average loan / VB (in US\$ thousands)	3 7	3 6	2 9
19 Number of members of village banks	1 408	2 340	2 918
20 Average loans/members of village banks	306	351	295
1/2% of portfolio financed by the NGO			
Source FINCA Financial Statements			
Preparation MAXIMIXE			

Chart No 4

CARE Test of Consistency (in US\$ thousands)		
	1995	1996
Indicators	US\$000	US\$000
<b>1 Average portfolio</b>	109 9	298 6
1 1 NGO resources	59 4	146 9
1 2 RCF resources	50 5	151 7
<b>2 Current portfolio</b>	218 2	412 5
2 1 NGO resources	149 1	178 3
2 2 RCF resources	69 1	234 2
<b>3 Financial income and fees</b>	52 0	157 7
3 1 NGO financial income	22 4	68 8
3 2 RCF financial income	29 6	88 9
<b>4 Financial expenses</b>	0 0	0 0
4 1 NGOs resources - financial expenses	0 0	0 0
4 2 VB / RCF resources - financial expenses	0 0	0 0
<b>5 Financial spread</b>	52 0	157 7
5 1 NGO financial spread	22 4	68 8
5 2 VB / RCF financial spread	29 6	88 9
<b>6 Other NGO income</b>	1 0	9 5
<b>7 NGO operational expenses</b>	108 6	117 1
7 1 Staff salaries	60 3	65 1
7 2 General expenses	48 3	52 1
<b>8 Provis Depreciation and Amortiz NGO 1/</b>	1 2	2 9
<b>9 Profit</b>	-56 8	47 1
9 1 NGO profit	-86 4	-41 8
9 2 VB / RCF profit	29 6	88 9
<b>10 Equity</b>	178 9	214 0
10 1 NGO equity	178 9	214 0
10 2 Grants to NGO	0 0	0 0
<b>11 RCF savings</b>	69 1	234 2
<b>12 Net profit / equity % (9/10)</b>	-31 7	22 0
<b>13 Net profit / average portfolio % (9/1)</b>	-51 7	15 8
<b>14 Number of employees</b>	8	8
<b>15 Average portfolio / Employee (in US\$ thousands)</b>	13 7	37 3
<b>16 Salary / Employee (in US\$ thousands)</b>	7 5	8 1
<b>17 Number of RCF</b>	136	112
<b>18 Average loan / RCF (in US\$ thousands)</b>	1 1	1 6
<b>19 Number of members of RCF</b>	2 590	2,106
<b>20 Average loan / memeber of RCF (\$)</b>	84	196
1/ 2% of the portfolio financed by the NGO		
Source CARE Financial Information		
Preparation MAXIMIXE		

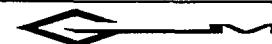


Chart No 5

<b>PROMUC</b> <b>Test of Consistency</b> (In US\$ thousands)		
	1995	1996
Indicators	US\$000	US\$000
<b>1 Average portfolio</b>	132 0	399 7
1 1 NGO resources	114 3	324 4
1 2 VB resources	17 7	75 3
<b>2 Current portfolio</b>	209 9	589 5
2 1 NGO resources	174 4	474 3
2 2 VB resources	35 4	115 2
<b>3 Financial income and fees</b>	78 1	240 1
3 1 NGO financial income	65 2	184 9
3 2 VB /RCF financial income	13 0	55 2
<b>4 Financial expenses</b>	0 0	0 0
4 1 NGO resources - financial expenses	0 0	0 0
4 2 VB / RCF resources - financial expenses	0 0	0 0
<b>5 Financial spread</b>	78 1	240 1
5 1 NGO financial spread	65 2	184 9
5 2 VB / RCF financial spread	13 0	55 2
<b>6 Other NGO income</b>	0 5	1 1
<b>7 NGO operational expenses</b>	148 3	262 4
7 1 Staff salaries	82 4	145 8
7 2 General expenses	65 9	116 6
<b>8 Provis Depreciation and Amortiz NGO 1/</b>	2 3	6 5
<b>9 Profit</b>	-71 9	-27 6
9 1 NGO profit	-84 9	-82 8
9 2 VB / RCF profit	13 0	55 2
<b>10 Equity</b>	336 4	645 4
10 1 NGO equity	225 5	511 4
10 2 Grants to NGO	110 9	134 0
<b>11 VB savings</b>	49 0	115 2
<b>12 Net profit/ equity % (9/10)</b>	-21 4	-4 3
<b>13 Net profit / Average portfolio % (9/1)</b>	54 5	-6 9
<b>14 Number of employees</b>	6 5	11 5
<b>15 Average portfolio / Employees (in US\$ thousands)</b>	20 3	34 8
<b>16 Salary / Employee (in US\$ thousands)</b>	12 7	12 7
<b>17 Number of VB</b>	71	112
<b>18 Average loan / VB (in US\$ thousands) (2 1/16)</b>	2 5	4 2
<b>19 Number of members of village banks</b>	1 412	2 542
<b>20 Average loan / members of village bank (\$)</b>	149	232
1/ 2% of the portfolio is financed by the NGO Source CRS/PROMUC Financial information Preparation MAXIMIXE		

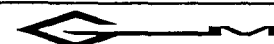


Chart N° 5 1

FINCA, CARE and PROMUC Major Financial Indicators							
	FINCA			CARE		PROMUC	
	1994	1995	1996	1995	1996	1995	1996
Financial profit/Average portfolio	26.5	30.1	33.1	47.3	52.8	59.2	60.1
Costos Operativos/Average portfolio	47.5	26.4	27.4	98.8	39.2	112.3	65.6
Average portfolio/N° of employees	13.3	27.5	25.1	13.7	37.3	20.3	34.8
Profit/equity	-8.4	5.4	10.1	31.7	22.0	21.4	4.3
VB RCF loans/VB RCF savings	100	76.9	69.0	100.0	100.0	72.3	100.0
Source: Charts 3, 4 and 5 Preparation: MAXIMIXE							

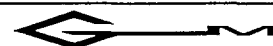


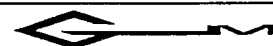
Chart N° 6

Loans and Deposits Per Capita in the zones were NGOs operate - March 1997 (In thousands dollars)		
Provinces and Cities	Loans	Depositos
Cajamarca	78 3	180 5
Chiclayo	374 9	209 6
Chimbote	829 5	462 2
Chota	18 9	13 4
Cusco	235 8	424 5
Huamanga	44 6	105 2
Juliaca	166 3	208 1
Lambayeque	46 0	18 9
Lima	1,336 1	1 493 5
Piura	342 5	219 6
Puno	74 5	110 5
Trujillo	349 6	300 5
Source Insurance and Banking Superintendency		



Chart N° 7

Average Portfolio, Income, Costs and Spread from VB and RCF Years 1, 2 and 3 (in %)			
	FINCA	CARE	PROMUC
<b>Year 1</b>			
Average portfolio	100 0	100 0	100 0
Income due to interests	43 1	92 2	73 3
Financial expenses	42 6	51 0	58 7
Financial spread	0 5	41 2	14 6
Operational expenses	0 0	0 0	0 0
Operational spread	0 5	41 2	14 6
<b>Year 2</b>			
Average portfolio	100 0	100 0	100 0
Income due to interests	43 1	92 2	73 3
Financial expenses	21 8	25 5	29 4
Financial spread	21 3	66 8	44 0
Operational expenses	0 0	0 0	0 0
Operational spread	21 3	66 7	44 0
<b>Year 3</b>			
Average portfolio	100 0	100 0	100 0
Income due to interests	43 1	92 2	73 3
Financial expenses	0 0	0 0	0 0
Financial spread	43 1	92 2	73 3
Operational expenses	0 0	0 0	0 0
Operational spread	43 1	92 2	73 3



**Chart No 8**  
**Alternative A**

<b>FINCA, PROMUC and CARE</b> <b>Test of Consistency 1996</b> (in US\$ thousands)			
	<b>FINCA</b>	<b>CARE</b>	<b>PROMUC</b>
<b>Indicators</b>	<b>In US\$</b>	<b>In US\$</b>	<b>In US\$</b>
<b>1 Average portfolio</b>	802	299	400
1 1 NGO resources	348	147	324
1 2 VB / RCF resources	455	152	75
<b>2 Current portfolio</b>	861	413	590
2 1 NGO resources	371	178	474
2 2 VB / RCF resources	491	234	115
<b>Financial income and fees</b>	237	126	192
3 1 NGO financial income	142	55	148
3 2 Financial income VB / RCF	287	71	44
<b>4 Financial expenses</b>	0	0	0 0
4 1 NGO resources - financial expenses	0	0	0 0
4 2 VB / RCF resources financial expenses	164	0	0
<b>5 Financial spread</b>	237	126	192
5 1 NGO financial spread	142	55	148
5 2 VB / RCF financial spread	123	71	44
<b>6 Other NGO income</b>	8 0	9 5	1 1
<b>7 NGO operational expenses</b>	220	117	262
7 1 Staff salaries	140	65	146
7 2 General expenses	79	52	117
<b>8 Provis Depreciation and Amortiz. NGO I/</b>	7	3	6 5
<b>9 Profit</b>	18	16	76
9 1 NGO profit	-76	-55 6	-120
9 2 VB / RCF profit	123	71	44
<b>10 Equity</b>	433	214	608
10 1 NGO equity	357	214	474
10 2 Grants to NGO	76	0	134
<b>11 VB / RCF savings</b>	712	234	115
<b>12 Net profit /Equity % (9/10)</b>	4 2	7 3	12 4
<b>13 Net profit / Average portfolio % (9/1)</b>	2 3	5 2	18 9
<b>14 Number of employees</b>	32	8	12
<b>15 Average portfolio / Employee (in US\$ thousands)</b>	25 1	37 3	34 8
<b>16 Salary / Employee (in US\$ thousands)</b>	4 4	8 1	12 7
<b>17 Number of VB</b>	130	112	112
<b>18 Average loan / VB (in US\$ thousands)</b>	2 9	1 6	4 2
<b>19 Number of members of VB</b>	2 918	2 106	2 542
<b>20 Average loan / members of VB (\$)</b>	295 2	195 9	231 9
1/ 2 % of the portfolio financed by the NGO Alternative A interest rate lower than 20% Preparation MAXIMIXE			

**Chart N° 9**  
**Alternativa B**

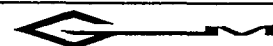
<b>FINCA, PROMUC and CARE</b> <b>Test of Consistency 1996</b> (in thousands \$)			
	<b>FINCA</b>	<b>CARE</b>	<b>PROMUC</b>
<b>Indicators</b>	<b>In US\$</b>	<b>In US\$</b>	<b>In US\$</b>
<b>1 Average portfolio</b>	945	358	480
1 1 NGO resources	417	176	388
1 2 VB / RCF resources	528	182	91
<b>2 Current portfolio</b>	1 101	495	750
2 1 NGO resources	463	214	602
2 2 VB / RCF resources	638	281	147
<b>3 Financial income and fees</b>	314	211	346
3 1 NGO financial income	142	83	266
3 2 VB / RCF financial income	333	128	80
<b>4 Financial expenses</b>	0	0	0 0
4 1 NGO resources - financial expenses	0	0	0 0
4 2 VB / RCF resources - financial expenses	190	0	0
<b>5 Financial spread</b>	314	211	346
5 1 NGO financial spread	142	83	266
5 2 VB / RCF financial spread	143	128	80
<b>6 Other NGO income</b>	8 0	9 5	1 1
<b>7 NGO operational expenses</b>	220	117	262
7 1 Staff salaries	140	65	146
7 2 General expenses	79	52	117
<b>8 Provis Depreciation and Amortiz. NGO 1/</b>	8	4	7 8
<b>9 Profit</b>	94	99	77
9 1 NGO profit	78	-28 6	3
9 2 VB / RCF profit	143	128	80
<b>10 Equity</b>	488	257	725
10 1 NGO equity	413	257	591
10 2 Grants to NGO	76	0	134
<b>11 BBCC / FRC savings</b>	854	281	115
<b>12 Net profit/ equity % (9/10)</b>	19 2	38 7	10 6
<b>13 Net profit / Average portfolio % (9/1)</b>	9 9	27 7	16 1
14 Number of employees	32	8	12
15 Average portfolio / employee (in US\$ thousands)	29 5	44 8	41 7
16 Salaries / Employee (in US\$ thousands)	4 4	8 1	12 7
17 Number of VB	130	112	112
18 Average loan / VB (in US\$ thousands)	3 6	1 9	5 4
19 Number of members of village banks	2 918	2 106	2 542
20 Average loan /member of village banks (\$)	329 6	235 1	295 0
1/ 2% of the portfolio financed by the NGO Alternative B productivity higher than 20% Preparation MAXIMIXE			

## **B METHODOLOGICAL ANNEX**

The analysis was limited to the anti-poverty credit programs of FINCA-Peru, CARE-Peru and CRS/PROMUC. These programs count on several sources of funds in addition to those from MSP/APPLE. The methodology has four analytical levels.

### **Analysis, Evaluation and Prognosis of the Credit Function of each Program**

- 1 The financial statements (balance and income sheets) for each of the three credit programs corresponds to calendar years 1994, 1995, 1996 and to the first quarter of 1997.
- 2 The necessary adjustments were made in order that the financial statements reflect the financial and operational expenses.
- 3 For FINCA-Peru, which performs only credit activities, its financial statements were used with only minor modifications. In the case of CARE-Peru and CRS-Peru/PROMUC, as they have other programs, it was necessary to build financial statements with the information provided by each NGO. We only have estimated data for PROMUC, but none for each one of the six NGOs that makes up the consortium. In all three cases, we used similar criteria in order to make meaningful comparisons possible.
- 4 The financial information provided by the NGOs was analyzed with a set of financial ratios and indicators (demonstrated as valid in other evaluations of microfinance institutions performed by MAXIMIXE). Using these indicators, the consultants have estimated the following:
  - 4.1 Magnitude of the operations
    - The size of the total portfolio at the end of each period. The total portfolio means the loans financed with the NGO funds plus the loans financed with the resources of the Village Banks or Rotating Credit Funds.
    - Total amount of loans in each period.
    - Number of loans disbursed.
    - Average, minimum and maximum loans by VBs/RCFs, and
    - Average loan size per member-client.
  - 4.2 Profitability
    - Profits /Equity



4 3 Efficiency

- Operational Margin (Total Income - Total Expenses)/Total Expenses
- Financial Income/End-of-Year Portfolio
- Financial Income/Annual Average Portfolio
- Average Portfolio per Employee
- N° of Credits per Employee

4 4 Portfolio Quality

- Delinquency Arrears One Day or More/Total Portfolio
- Global Risk
  - ⇒ Arrears One Day or More /Equity
  - ⇒ Exposed Portfolio/Total Portfolio

4 5 Solvency and Leverage Capacity

- Liabilities/Equity

5 The financial statements were adapted to the requirements established by the SBS for Financial Institutions

6 Adjustments were made to the portfolio accounts and the fixed assets accounts, calculating a 2% provision for unpaid loans and devaluation

7 Adjustments were made to the Income Sheet, verifying the adequate accounting of donations

8 The real operational costs were estimated, to this end

8 1 A thorough analysis of the financial statements was made

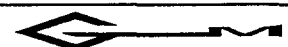
8 2 The consultants interviewed the principal executives of each NGO, and

8 3 The team conducted a survey with interviews of a representative sample of member-borrowers

9 On the basis of the analysis of the financial statements and the surveys, the most relevant variables were identified for purposes of proposing measures required to accomplish sustainability of the different credit programs

10 Particular attention was given to the comparative costs and benefits of the three models utilized by each NGO credit program

11 The proportion of borrowers with their first loan, second loan, and third or more was determined, in order to measure the impact of credit on the clients



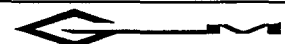
- 12 The complementary functions and services delivered by the NGOs, and their synergy with the credit function, of each credit program was analyzed and evaluated

### **Analysis of the Complementary Functions**

- 1 The team analyzed and evaluated the training activities and their impact on the beneficiaries as credit clients
- 2 The technical assistance and its impact on the beneficiaries as credit clients was also analyzed and evaluated

### **Social Impact Evaluation**

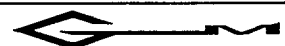
- 1 The evaluation of the social impact of the credit and complementary activities were estimated through the following variables
  - 1 1 The increase in the number of members and their permanency in the organizations
  - 1 2 The increase in income and payment capacity of the member-borrowers who take on larger loans
  - 1 3 Improvement in the quality of life of the members, measured through improvements in their homes and the purchase of household appliances
  - 1 4 Increase of the productive capacity of the clients, measured by the increase in their average monthly sales
  - 1 5 Degree of cohesion of the organizations
  - 1 6 Performance of the borrowers according to gender
- 2 Each one of the above variables was measured at the beginning of the program and on March 31, 1997
  - 2 1 The measure of the first variable was based on information provided by the NGOs
  - 2 2 The second variable was estimated from the Poverty Map of FONCODES and the Standard-of-Living Survey conducted by INEI (Instituto Nacional de Estadística e Informática) and from our own surveys of the clientele of each NGO
  - 2 3 The measurement of the improvement in standard of living took into account the Poverty Map and the standard of living surveys performed by INEI



- 2 4 The measurement of the increase in productive capacity was based on the results of our own survey
- 2 5 The measurement of the degree of cohesion of the organizations was based on ad-hoc questions included in our survey, contrasting the answer with those given in interviews of leaders of the groups
- 2 6 The performance by gender was not possible to establish since practically all the clients were women

### **Strategic Analysis**

- 1 In an effort to try to specify the influence that these programs have had on the relief of poverty, the consultants have elaborated a base line on poverty in 1994 and 1996 in the areas where the NGOs work, using studies of poverty, in particular the Poverty Maps (FONCODES), the Standard of Living and Household Surveys (INEI), as data bases
- 2 The other frame of reference has been the Local Microfinance Markets, on the basis of official information from the SBS, the Central Bank and information from the feasibility studies for microfinance institutions made by MAXIMIXE
- 3 In order to specify the scope of the credit programs, to identify the basis on which the models implemented are sustained, and evaluate the changes occurred from the beginning of the programs, the consultants have analyzed in detail each one of the agreements and their amendments subscribed between the three NGOs and MSP, as well as the reports presented by the NGOs to the MSP and reports made by the MSP/AASP for USAID
- 4 The consultants have prepared a representative sample of clients of each NGO and have proceed to interview them in order to determine their perception of the program and the effects that the credit has had on their family income and on other aspects of the quality of their lives, such as self-esteem, degree of economic independence, etc
- 5 Attention was put on the examination and evaluation of the procedures the NGOs uses for the risk analysis of their clients as well as their internal and external auditing mechanisms
- 6 A review was also made of the electronic equipment -- characteristics of the hardware as well as of the software -- for the monitoring, internal control and accounting of the portfolio in each entity
- 7 The consultants have checked the Handbook of Organization and Functions for each NGO from the point of view of credit agents They have



also held interviews with key executives and credit officers in order to evaluate the quality of the implementation of formally established procedures

8 The consultants have prepared survey formats with key questions on the programs and the loans, to be filled out by

8 1 The NGO executives directly responsible for the credit programs

8 2 The NGOs that integrate PROMUC

8 3 Samples of clients and leaders of the borrowing groups

9 In their analyses of credit procedures, the consultants have taken particular care to identify the differences in efficiency among the individual Village Banks sponsored by each of the NGOs

10 The consultants have evaluated the profiles of the personnel to identify the characteristics that are common and those that distinguish the programs, in order to establish a correlation between these profiles and productivity

11 In addition to the analysis of MSP/AASP reports on the program, the consultants conducted interviews with the executives of MSP and of USAID to obtain their perceptions of the credit program

12 The same procedure was undertaken with LBII

13 The consultants have made financial projections in three alternative scenarios pessimistic, probable and optimistic

14 The Pessimistic scenario assumes a reduction of the financial margin by 20%, maintaining others variables unchanged. The Optimistic scenario assumes an increase in productivity of 20%, maintaining other variables unchanged

15 The amount of time required to reach the break-even point was calculated for each implementing agent

16 The consultants have prepared a draft report on the strengths and weaknesses of each NGO, which was discussed in a workshop with the relevant personnel of each institution prior to preparing the definitive version

17 The information processed and analyzed also permitted the consultants to draw conclusions on the roles performed by the MSP as well as by LBII



## **C SURVEY OF THE MEMBERS OF THE VILLAGE BANKS**

### **A METHODOLOGY**

#### **1 Research Objectives**

- a Identification of the Program's effects on the social and economic status of the Village Bank members
- b Measurement of the degree of knowledge, participation and involvement of the members in the organization and management of the Village Banks
- c Identification of the relationship between members' seniority, level of liabilities and savings accumulation
- d Identification of the synergy created in the Village Bank operations

#### **2 Principal Issues for Investigation**

- a Financial conditions as an explanatory factor of the Village Banks' growth
- b Members' perceptions of the Village Banking program, identification of its strengths and weaknesses
- c Impact on the levels of income/consumption of the Village Bank members

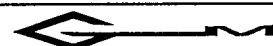
#### **3 Principal Hypotheses**

- a The members' participation in management and in results of the Village Banks is what allows and explains its cohesion and sustainability, through the absorption of operative costs
- b The program allows low-income people to have access to microcredits and encourages them to generate savings
- c Credit stimulates the development of organizations with strong components of social and economic integration, that permits the generation of synergy

#### **4 Determination of the Sample**

According to the characteristics of the population, we have adopt two basic criteria for the determination of the sample

- a The evaluation has the characteristic of a non experimental study, because there have been no influence over the variables observed. The study was limited to evaluate the state of affairs and to see the relationship between variables, at one point in time -- cross-sectional analysis- and on the evolution through time -- longitudinal analysis



- b We identified two types of samples. One was the Villages Banks themselves within each NGO. This was not a random sample -- not all the elements of the population had the same probability to be polled -- due to time frame limitations. It depended more on the characteristics of the NGO and the VBs. Issues like if the VBs were having a meeting or the conditions of the access to the site of the VB. This type of sample tends to be biased. The selection of this sample follows criteria of convenience and is arbitrary and informal. A second type of sample is within each VB, where the sample population are the components of each bank. With this type, we used a random stratified sample, making differences between the members and its VB's leaders.

In total 61 VBs were surveyed, of which 12 were supported by CARE, 16 by FINCA, and 33 by PROMUC/CRS. From their members resulted a total of 680 valid questionnaires. Some filters were designed to validate the answers.

To overcome the influence that the presence of the promoter could have over the members that were polled, the questionnaires were answered without mentioning the name. Also some bias was expected in the VBs that were surveyed when they were at the closing of a cycle.

**B QUESTIONNAIRE No 01**

**EVALUATION AND ASSESSMENT OF THE CREDIT PROGRAM IMPACT**

**BY**

**MEMBERS OF THE VILLAGE BANKS**

**INSTITUTION**

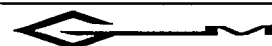
**ZONE**

**BANK**

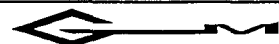
We are grateful for your participation please circle the letter of your answer the first three answers will be done together with the surveyor

- Circle the economic activity you do  
a production    b commerce    c service    specify
- How many years are you in business                      In what cycle are you in
- The house where you live, is it    a owned    b rented    c others    specify

- 
- 1 The requisites to get the first loan (external account) are  
a to much                      b reasonable                      c few
  - 2 The time it took you to get the first loan was  
a much                      b few                      c reasonable
  - 3 The interest rate for the External Account is  
a high                      b reasonable                      c low
  - 4 The interest rate for the internal account should  
a stay the same                      b go up                      c go down
  - 5 The term of the loans from the internal account should  
a be longer                      b de shorter                      c be the same
  - 6 The frequency of the meetings of your VB should be  
a weekly                      b every two weeks                      c monthly
  - 7 If you had the access to individual credit would you prefer it over group credit?  
  
Yes / No Why?
  - 8 Do you consider that default is a problem in your bank  
a of little importance                      b normal                      c to be worried
  - 9 During the time you received credits from the program did you  
a Bought home appliances    b upgrades to your housec    upgrade your business
  - 10 Were your savings affected as results of being a guarantor  
(YES / NO)



- 11 Do you require training in  
a production      b management      c sales      d others  
  
are you in the disposition to pay for them      Yes / No
- 12 How would you qualify your promoter  
a Good      b Regular      c Bad
- 13 How would you qualify the services delivered by the program  
a Good      b Regular      c Bad
- 14 Have you received a loan from any other source  
a Bank      b Money Lender      c NGO      d Others specify
- 15 How much do you spend each month for your family      S/  
a Food      S/  
b Transportation  
c Education  
d Leisure  
e Others
- 16 How much do you sell each day      S/
- 17 Were do you perform your economic activities?  
a in your home  
b in a shop or boot  
c ambulatory  
d others
- 18 Do you have other household income (by month or day)  
a spouse      S/  
b sons  
c others
- 19 From the moment you received your first loan does your income and family well-being has  
a gotten better  
b is the same  
c gotten worst
- 20 With regard to savings  
a Savings is beneficial the family  
b Savings is a guarantee for loans  
c Savings should be eliminated (if you have savings component)  
d Savings should be implemented (if you do not have savings component)
- 21 In relation to management and organization  
a Would you like to participate in the Credit Committee  
b Should the members of the credit committee be remunerated  
c Should the number of member of the VB be increased  
d Should the decision of credit approval be done by the promoter



22 Do you receive other loans from your VB or from the NGO

Yes / No specify

a

b

c

23 Please your suggestions to the program

## RESULTS OF QUESTIONNAIRE No 01

## Member information

ACTIVITY	FINCA	CARE	CRS/PROMUC
Production	6 0	13 4	9 1
Commerce	81 4	75 4	78 4
Service	12 6	11 3	12 5
Total	100 0	100 0	100 0

## How did you know about the program

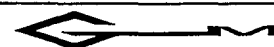
ACTIVITY	FINCA	CARE	CRS/PROMUC
Other users	75 4	45 0	58 6
Lectures	12 6	15 8	26 5
Visits	0 0	25 4	6 4
Others	12 0	13 8	8 5
Total	100 0	100 0	100 0

## Time in the business

ACTIVITY	FINCA	CARE	CRS/PROMUC
Less than 1	25 6	24 5	18 4
From 1 to 3	27 8	25 6	32 5
From 3 to 5	21 8	18 4	25 6
More than 5	24 8	31 5	23 5
Total	100 0	100 0	100 0

## Requirements for credit are

ACTIVITY	FINCA	CARE	CRS/PROMUC
Excessive	10 4	7 2	8 9
Reasonable	81 4	78 4	75 8
Few	8 2	14 4	15 3
Total	100 0	100 0	100 0



Time to get credit

	FINCA	CARE	CRS/PROMUC
Takes too much time	4 6	9 8	7 5
Reasonable	85 6	78 4	81 2
Short	9 8	11 8	11 3
Total	100 0	100 0	100 0

Have obtained credit from other institution

	FINCA	CARE	CRS/PROMUC
Yes	8 2	4 5	15 2
Bank	5 4	2 5	59 0
Borrower	25 6	18 6	15 6
NGO	35 6	54 8	18 6
Other	33 4	24 1	6 8
No	91 8	95 5	84 8
Total	100 0	100 0	100 0

Interest rate of the internal account

	FINCA	CARE	CRS/PROMUC
Should increase	0 0	0 0	0 0
Should diminish	8 5	25 8	15 8
Should remain the same	91 5	74 2	84 2
Total	100 0	100 0	100 0

Interest rate of the external account

	FINCA	CARE	CRS/PROMUC
Should increase	2 8	0 0	12 6
Should diminish	10 3	22 5	8 5
Should remain the same	86 9	77 5	78 9
Total	100 0	100 0	100 0

The term of the loans with the internal account should

	FINCA	CARE	CRS/PROMUC
Increase	31.2	25.4	38.4
Diminish	0.0	2.8	5.6
Remain the same	68.8	71.8	56.0
Total	100.0	100.0	100.0

The VB-RCF meetings should be

	FINCA	CARE	CRS/PROMUC
Weekly	27.8	2.5	5.6
Biweekly	31.8	12.4	25.4
Monthly	40.4	85.1	69.0
Total	100.0	100.0	100.0

Preference for personal rather than groupal credits

	FINCA	CARE	CRS/PROMUC
Yes	35.6	21.4	24.5
No	64.4	78.6	75.5
Total	100.0	100.0	100.0

The default problem is

	FINCA	CARE	CRS/PROMUC
Of little importance	4.0	10.2	10.7
Normal	78.5	81.4	74.8
Worrying	17.5	8.4	14.5
Total	100.0	100.0	100.0



During the time you received credits from the program you

	FINCA	CARE	CRS/PROMUC
Bought home appliances	10 1	8 9	12 4
Made improvements in your houses	4 5	15 5	13 1
Made improvements in your business	85 4	75 6	74 5
Total	100 0	100 0	100 0

Your savings were affected for being guarantor in any occasion

	FINCA	CARE	CRS/PROMUC
Yes	24 4	0 0	14 4
No	75 6	0 0	85 6
Total	100 0	100 0	100 0

Requires training in

	FINCA	CARE	CRS/PROMUC
Production	58 6	45 6	51 1
Management	12 4	15 6	19 5
Sales	24 5	31 6	23 8
Other	4 5	7 2	5 6
Total	100 0	100 0	100 0

Assessment of the program services

	FINCA	CARE	CRS/PROMUC
Good	88 5	78 8	75 6
Bad	2 1	5 8	4 5
Regular	9 4	15 4	19 9
Total	100 0	100 0	100 0

## Consumption levels

	FINCA	CARE	CRS/PROMUC
More than US\$600	7.6	13.2	13.4
Up to US\$600	38.2	41.2	37.1
Less than US\$200	54.2	45.6	49.5
Total	100.0	100.0	100.0

## Cost structure

	FINCA	CARE	CRS/PROMUC
Food	68.5	62.5	67.8
Transportation	2.1	9.8	6.8
Education	5.6	4.8	4.1
Leisure	5.3	7.3	7.1
Other	18.5	15.6	14.2
Total	100.0	100.0	100.0

## Income structure

	FINCA	CARE	CRS/PROMUC
Member	69.8	61.4	45.7
Family	30.2	38.6	54.3
Total	100.0	100.0	100.0
Up to US\$200 family income	49.9	43.2	
From US\$200 to US\$600	42.5	44.0	
More than US\$600	7.6	12.8	
Total	100.0	100.0	100.0

## Where do you carry out your economics activities

	FINCA	CARE	CRS/PROMUC
Your house	35.6	41.5	48.5
In a fixed booth or store	54.5	34.2	31.8
Ambulatory	7.1	18.7	15.2
Other	2.8	5.6	4.5
Total	100.0	100.0	100.0

Opinion of your family condition

	FINCA	CARE	CRS/PROMUC
Improved	64.2	56.2	51.8
Remains the same	31.2	41.0	44.2
Is worst	4.6	2.8	4.0
Total	100.0	100.0	100.0

With regard to savings

	FINCA	CARE	CRS/PROMUC
Saving benefits the family	61.5	0.0	52.1
Saving guarantees credits	45.8	0.0	35.8
Should be avoid	2.8	0.0	12.4
Should be implemented	0.0	45.8	0.0

With regard to organization and management

	FINCA	CARE	CRS/PROMUC
More participation of committee	12.5	25.8	31.2
Payment per committee activity	31.2	25.7	12.5
Increase in the number of members	62.5	14.7	15.8
Decision of credit of promoter	15.8	8.5	28.5

## **SURVEY OF THE SUPERVISORS/CREDIT PROMOTERS**

### **A METHODOLOGY**

#### **1 Research Objectives**

- a Identification of the professional profile of the credit promoters
- b Determination of the salary levels and motivation factors in relation to the roles done
- c Measurement of the degree of identification and integration of the employees with their institution Measurement of the degree of identification and integration of the institution with the environment in which it works
- d Identification of the relationship between the village bank credit conditions and procedures with the perception the members have about their access to credit and the increase in their wealth
- e Determination of the degree of sustainability of the organization
- f Identification of the strength and weaknesses of the organization

#### **2 Principal Issues for Investigation**

- a The relationship between access to credit and the operative conditions of the credit program
- b Information systems as a factor of knowledge and institutional development
- c The perception of the board of directors and executive staff of the institutional mission and objectives

#### **3 Principal Hypothesis**

- a The promoters social awareness rather than academic studies is a fundamental competence for implementing her duties
- b The specialization in credit activities goes in favor of the institutional performance
- c The participation of the credit promoters in the decision levels of the institution enhances their identification and institutional integration
- d The sustainability of the program will depend upon the correct distribution and allocations of roles, which implies an adequate cost structure
- e The replication and massive spreading of the program depends on the institutional strength of each NGO

#### 4 Determination of Sample

The survey taken to the supervisors and promoters, is non experimental. The determination of the sample was non probabilistic because the elements were selected conditioned to the schedule and availability of them. Nevertheless, all the supervisors of each NGO were polled.

A total of 40 interviews were done to supervisors and promoters of which 12 were from FINCA-Peru, 10 from CARE-Peru, and 18 from CRS-Peru / PROMUC. It must be noted the massive participation of the promoters of FINCA-Peru, Ayacucho Region, due to the VB concentration.

In some cases administrative and auxiliary personnel, such as accountants or cashiers, were also interviewed in order to understand the operating procedures of the loan cycle.

The degrees of reliability are acceptable, considering the methodology of the survey. Nevertheless the precision of the information and the bias of the personal opinions have been checked against the empirical evidence of the reports and the analysis of the documentation of each institution.

The questionnaire applied in the survey includes descriptive and qualitative questions with the purpose of checking the level of knowledge the person interviewed had of the organization. This type of information has been verified with the financial statements.

**B QUESTIONNAIRE No 02**

**EVALUATION AND ASSESSMENT OF THE CREDIT PROGRAM IMPACT  
BY GO CREDIT SUPERVISORS/PROMOTERS**

NGO                                      AGENCY/ OFFICE                                      DATE                                      /                                      /

**1 To be filled-out by the SUPERVISORS/RESPONSIBLE of agency**

- 1 The programs implemented by the office including credit programs are
  - a
  - b
  - c
  - d
- 2 Sources of Funds for your credit programs
  - a
  - b
  - c
- 3 Number Village Banks / Rotating Credit Funds
  - a Created until now
  - b Active
  - c Graduated
  - d To be Created
- 4 Number of employee
  - a Total Considering all the programs
  - b Only in the credit program
  - c Only analyst or credit promoter
- 5 Hiring personnel conditions
  - a Open Term
  - b Fixed Term
  - c Others (specify)
- 6 Information and communications equipment in the Office (specify)
  - a Computers
  - b Connections fax modem internet others
  - c Credit information system (annex reports)
  - d Accounting system (annex reports)
- 7 Perceptions on
  - a The amount lend in your agency (active portfolio)
  - b The amount of savings estimated in your agency (capital accumulation)
  - c Impact of the program in the population
  - d Projections of growth / replicability of the program
  - e Sustainability assessment / Operating cost cover
  - f Resource availability for the program
  - g Others/suggestions/observations

**II To be filled-out by the PROMOTERS/ANALYSTS**

- 1 On the credit terms of conditions of the NGO to the village banks
  - a Amounts maximum Minimum
  - b Terms Total Grace period Installments
  - c Interest Rate Conditions
  - d Payment period
  - e Type of guaranties Real Social
  - f Use of the loan
  - g Default rate
  - h Reasons
  
- 2 On the credit terms of conditions of the village banks to the members
 

	External Account	Internal Account
a Amount Minimum / Maximum	/	/
b Term		
c Interest Rate		
d Type		
d Payment period		
e Default rate, estimated	%	%
f Reasons		
  
- 3 Profile or the credit promoter
  - a Average Annual Salary US\$
  - b Profession or training
  - c Years of service in the position
  - d Former duty
  - e Type of Contract
  - f Is there motivation programs
  
- 4 Participation in (specify)
  - a Seminars /courses/workshops
  - b Stages
  - c Others
  
- 5 Factors for credit approval (how are they measured?)
  - a Economic Activity Yes / No
  - b Punctuality in payments Yes / No
  - c Guaranties presented by the members Yes / No
  - d Income /payment capacity Yes / No
  - e Assistance to training seminars / first credit Yes / No
  - f Others specify
  
- 6 The savings of the members (if it exists) is it
  - a Free to withdraw Yes / No
  - b A collateral for the loan Yes / No
  - c Generates a cost to the institution Yes / No
  - d Unlawful Yes / No

- 7 On the Procedure for the credit disbursement
  - a Loans are disbursed in cash / check
  - b A payment schedule is given Yes / No
  - c A Mutuo contract is signed Yes / No
  - d A bill or draft is signed Yes / No
  
- 8 On the collection of loans
  - a Payments are done in cash / deposited in the bank
  - b receipts are emitted upon payment Yes / No
  - c Value added tax is charged Yes / No
  - d Security measures are adopted specify
  
- 9 Characteristics of the VB/RCF
  - a Number of members per bank
  - b Number of members of the credit committee/administrative committee
  - c The Credit Committee is renewed Yes / No  
With what frequency
  - d The Promoter Participate in Credit decisions Yes / No
  - e The cash surpluses are placed
  - f Number of banks per promoter
  - g Districts assigned by promoter
  - h Average number of founding members still active in the banks to date
  - i Are profits distributed Yes / No
  
- 10 Perception of the promoters about the degree of desertion
  - a Default
  - b Change of address
  - c Change of economic activity
  - d Level of Savings accumulated
  - e Others
  
- 11 Destiny of the graduate banks
  - a Additional credit programs
  - b Recapitalization (starting again)
  - c Transferred to other institutions
  - d Others
  
- 12 Suggestions/recommendations to the program



RESULTS OF QUESTIONARE No 02

Number of Banks (\*)

	FINCA	CARE	CRS/PROMUC
Established to date	100 0	100 0	100 0
Current	91 2	98 4	95 6
Graduated	8 5	0 0	0 0
To be established	3 8	5 2	3 1

(\*) Are not complementary

Number of employees in %

	FINCA	CARE	CRS/PROMUC
All the programs	100 0	100 0	100 0
Only in credit	100 0	10 0	30 0
Only promoters	60 0	8 0	22 0

Staff hiring conditions

	FINCA	CARE	CRS/PROMUC
Open term	30 9	62 4	25 7
Fix term	53 3	32 5	65 2
Other	15 8	5 1	9 1
Total	100 0	100 0	100 0

Communication/information system

	FINCA	CARE	CRS/PROMUC
Computers	es	yes	yes
Fax modem Internet	PARTIAL	yes	PARTIAL
Software - credit	o	yes	PARTIAL
Software - accounting	PARTIAL	PARTIAL	PARTIAL

Positive perception of

	FINCA	CARE	CRS/PROMUC
Growing/replicability	yes	yes	yes
Sustainability/coverage	PARTIAL	yes	yes
Availability of resources	yes	yes	PARTIAL

Promoters opinion on the reasons for default

	FINCA	CARE	CRS/PROMUC
Payment will	15 3	25 6	34 5
Unvoluntary situations	29 4	38 8	31 5
Change in address	41 2	13 6	15 6
Change in economical activity	11 8	19 6	12 5
Others	2 3	2 4	5 9
Total	100 0	100 0	100 0

Profile of credit promoter

	FINCA	CARE	CRS/PROMUC
Average monthly salary US\$	250 0	400 0	320 0
Professional (P)/technician (T)	T	P	P
Average time in post	2 5 years	3 years	1 5 years
Motivation program	NO	NO	PARTIAL

Personal participation in

	FINCA	CARE	CRS/PROMUC
Workshops/courses/seminars	55 0	65 0	55 0
Traineeship	45 0	60 0	65 0
Others	10 0	60 0	35 0

Assessment of items for credit approval

	FINCA	CARE	CRS/PROMUC
Economical activities	35	85	56
Fulfillment of former payments	645	615	584
Guarantees	58	125	115
Level of income	262	175	245
Total	1000	1000	1000

Promoters opinion on saving

	FINCA	CARE	CRS/PROMUC
Free availability	652	00	714
Credit guarantee	725	00	653
Generates costs for the institution	458	00	215
Unlawful	584	00	456

Procedure for credit disbursement

	FINCA	CARE	CRS/PROMUC
Cash	yes	no	Partial
Payment schedule	Partial	yes	yes
Mutuo' contract	no	yes	yes
A bill or draft is signed	yes	yes	yes

Recovery procedures

	FINCA	CARE	CRS/PROMUC
Cash	yes	no	Partial
Issuance of receipts	Partial	no	no
Charged with value added tax	yes	no	no
Security measures	yes	no	no

Characteristics of village banks

	FINCA	CARE	CRS/PROMUC
Number of clients per bank	18 0	22 0	24 0
Number of committees members	3 0	4 0	4 0
Allocation of cash flow surplus	ONG	Bank	Bank
Number of banks per promoter	10 0	8 0	9 0
Average number of founding members	7 0	15 0	9 0
Profit distribution	yes	no	Partial

Promoters perception on members abandonment/rotation

	FINCA	CARE	CRS/PROMUC
Default	12 8	16 5	29 6
Change of address	45 8	58 9	32 8
Change of activity	12 5	15 7	8 6
Levels of accumulated savings	21 4	0 0	25 6
Others	7 5	8 9	3 4
Total	100 0	100 0	100 0

Destiny of graduated banks

	FINCA	CARE	CRS/PROMUC
Complementing credit programs	Partial	yes	Partial
Recapitalization	yes	no	Partial
Transfer to other institutions	no	no	Partial

Major recommendations

	FINCA	CARE	CRS/PROMUC
Increase resource	46 8	31 1	39 6
Formalization of NGO-VB relation	8 5	21 5	24 3
Formalization of the NGO, as financial intermediary	32 2	38 5	26 4
Legal actions for recovery	12 5	8 9	9 7
Total	100 0	100 0	100 0